

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 13, 1998.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1998
COMMISSION FILE NUMBER 0-20570

USA NETWORKS, INC.
(Exact name of Registrant as specified in its charter)

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
(Address of principal executive offices)

10019
(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 30, 1998, there were outstanding 124,041,759 shares of Common Stock and 31,181,726 shares of Class B Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant as of October 30, 1998 was \$2,138,893,538.

Assuming the conversion, as of October 30, 1998, of all equity securities of the Registrant and its affiliates convertible into or exchangeable for Common Stock, the Registrant would have had outstanding 330,114,686 shares of Common Stock with an aggregate market value of \$7,427,580,435.

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

USA NETWORKS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 1998 | 1997 | 1998 | 1997 |
| (In thousands, except per share data) | | | | |
| NET REVENUES | | | | |
| Networks and television production..... | \$281,302 | \$ -- | \$ 757,305 | \$ -- |
| Electronic retailing..... | 261,183 | 236,706 | 776,418 | 743,893 |
| Ticketing operations..... | 89,134 | 67,331 | 283,538 | 67,331 |
| Internet services..... | 5,934 | 3,330 | 14,467 | 8,511 |
| Broadcasting and other..... | 2,961 | 18,889 | 35,289 | 51,758 |
| Total net revenues..... | \$640,514 | \$326,256 | \$1,867,017 | \$871,493 |
| Operating costs and expenses: | | | | |
| Cost of sales..... | 192,531 | 156,041 | 533,190 | 464,159 |
| Program costs..... | 153,618 | -- | 412,541 | -- |
| Other costs..... | 185,758 | 121,827 | 597,328 | 273,316 |
| Depreciation and amortization..... | 58,605 | 25,703 | 163,712 | 67,194 |
| Total operating costs and expenses..... | 590,512 | 303,571 | 1,706,771 | 804,669 |
| Operating income..... | 50,002 | 22,685 | 160,246 | 66,824 |
| Other income (expense): | | | | |
| Interest income..... | 4,097 | 1,460 | 11,807 | 3,973 |
| Interest expense..... | (25,875) | (8,611) | (94,704) | (22,101) |
| Gain on disposition of broadcast stations..... | 9,247 | -- | 84,187 | -- |
| Miscellaneous..... | (3,452) | (3,023) | (19,707) | (9,283) |
| | (15,983) | (10,174) | (18,417) | (27,411) |
| Earnings before income taxes and minority interest..... | | | | |
| Income tax expense..... | 34,019 | 12,511 | 141,829 | 39,413 |
| Minority interest..... | (16,619) | (9,078) | (72,792) | (29,753) |
| | (22,249) | 83 | (42,996) | 98 |
| NET EARNINGS (LOSS)..... | \$ (4,849) | \$ 3,516 | \$ 26,041 | \$ 9,758 |
| Net earnings (loss) per common share..... | | | | |
| Basic..... | \$ (.03) | \$.03 | \$.19 | \$.10 |
| Diluted..... | \$ (.03) | \$.03 | \$.14 | \$.09 |
| Weighted average shares outstanding..... | 155,017 | 110,020 | 138,355 | 102,016 |
| Weighted average diluted shares outstanding..... | 155,017 | 118,994 | 280,242 | 108,174 |

The accompanying notes are an integral part of these statements.

USA NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| ASSETS | SEPTEMBER 30, | | DECEMBER 31, |
|--|---------------|-------------|--------------|
| | 1998 | 1997 | 1997 |
| (In thousands) | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents..... | \$ 292,231 | \$ 106,121 | \$ 116,036 |
| Accounts and notes receivable, net..... | 286,237 | 98,364 | 96,867 |
| Inventories, net..... | 445,425 | 155,844 | 151,100 |
| Deferred income taxes..... | 37,067 | 33,714 | 39,956 |
| Other current assets, net..... | 27,028 | 13,381 | 16,723 |
| Total current assets..... | 1,087,988 | 407,424 | 420,682 |
| PROPERTY, PLANT AND EQUIPMENT | | | |
| Computer and broadcast equipment..... | 203,240 | 140,136 | 145,701 |
| Buildings and leasehold improvements..... | 94,179 | 83,618 | 83,851 |
| Furniture and other equipment..... | 68,009 | 36,199 | 39,498 |
| | 365,428 | 259,953 | 269,050 |
| Less accumulated depreciation and amortization.... | (152,238) | (113,433) | (120,793) |
| | 213,190 | 146,520 | 148,257 |
| Land..... | 15,944 | 17,365 | 16,602 |
| Projects in progress..... | 19,607 | 9,806 | 15,262 |
| | 248,741 | 173,691 | 180,121 |
| OTHER ASSETS | | | |
| Intangible assets, net..... | 6,352,103 | 1,857,803 | 1,862,128 |
| Cable distribution fees, net (\$41,765, \$37,462, and \$46,459, respectively, to related parties)..... | 97,596 | 104,137 | 111,292 |
| Long-term investments (\$3,068, \$17,267, and \$7,510, respectively, in related parties)..... | 66,364 | 33,576 | 47,926 |
| Notes and accounts receivable, net of current portion (\$4,695, \$843, and \$843, respectively, from related parties)..... | 78,901 | 11,552 | 11,854 |
| Inventories, net..... | 202,117 | -- | -- |
| Deferred income taxes..... | 72,704 | 5,592 | 3,541 |
| Deferred charges and other, net..... | 60,443 | 43,530 | 33,252 |
| | \$8,266,957 | \$2,637,305 | \$2,670,796 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

USA NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| LIABILITIES AND STOCKHOLDERS' EQUITY | SEPTEMBER 30, | | DECEMBER 31, |
|--|---------------|-------------|--------------|
| | 1998 | 1997 | 1997 |
| (In thousands) | | | |
| CURRENT LIABILITIES | | | |
| Current maturities of long-term obligations..... | \$ 68,564 | \$ 11,263 | \$ 12,918 |
| Accounts payable, trade..... | 165,576 | 107,577 | 111,214 |
| Accounts payable, client accounts..... | 84,664 | 103,687 | 73,887 |
| Obligations for program rights and film costs..... | 275,996 | -- | -- |
| Cable distribution fees payable (\$18,578, \$8,474 and \$19,091, respectively, to related parties)..... | 28,862 | 32,314 | 43,553 |
| Deferred gain on CitySearch Transaction..... | 65,802 | -- | -- |
| Other accrued liabilities..... | 384,097 | 96,394 | 118,169 |
| Total current liabilities..... | 1,073,561 | 351,235 | 359,741 |
| LONG-TERM OBLIGATIONS (net of current maturities)... | 748,101 | 428,754 | 448,346 |
| OBLIGATIONS FOR PROGRAM RIGHTS AND FILM COSTS, net of current..... | 346,563 | -- | -- |
| OTHER LONG-TERM LIABILITIES..... | 52,630 | 50,423 | 43,132 |
| MINORITY INTEREST..... | 3,589,338 | 365,355 | 372,223 |
| COMMITMENTS AND CONTINGENCIES..... | -- | -- | -- |
| STOCKHOLDERS' EQUITY | | | |
| Preferred stock -- \$.01 par value; authorized 15,000,000 shares; no shares issued and outstanding..... | -- | -- | -- |
| Common stock -- \$.01 par value; authorized 800,000,000 shares; issued and outstanding 123,994,918; 87,293,722; and 87,430,586 shares, respectively..... | 1,240 | 872 | 874 |
| Class B -- convertible common stock -- \$.01 par value; authorized, 200,000,000 shares; issued and outstanding, 31,181,726; 24,455,294; and 24,455,294 shares, respectively..... | 312 | 244 | 244 |
| Additional paid-in capital..... | 2,533,708 | 1,556,031 | 1,558,037 |
| Accumulated deficit..... | (77,560) | (106,904) | (103,601) |
| Unrealized gain in available for sale securities.... | 7,476 | -- | -- |
| Foreign currency translation..... | (1,723) | -- | -- |
| Unearned compensation..... | (1,691) | (3,707) | (3,202) |
| Note receivable from key executive for common stock issuance..... | (4,998) | (4,998) | (4,998) |
| Total stockholders' equity..... | 2,456,764 | 1,441,538 | 1,447,354 |
| | ===== | ===== | ===== |
| | \$8,266,957 | \$2,637,305 | \$2,670,796 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

USA NETWORKS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

| | TOTAL | COMMON STOCK | CLASS B CONVERTIBLE COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED DEFICIT | UNREALIZED GAINS | FOREIGN CURRENCY TRANSLATION |
|---|-------------|-----------------|---|----------------------------------|------------------------|---------------------|------------------------------------|
| (In thousands) | | | | | | | |
| BALANCE AT JANUARY 1, 1998..... | \$1,447,354 | \$ 874 | \$244 | \$1,558,037 | \$(103,601) | \$ -- | \$ -- |
| Comprehensive Income: | | | | | | | |
| Net earnings for the nine months ended September 30, 1998..... | 26,041 | -- | -- | -- | 26,041 | -- | -- |
| Increase in unrealized gains in available for sale securities..... | 7,476 | -- | -- | -- | -- | 7,476 | -- |
| Foreign currency translation... | (1,723) | -- | -- | -- | -- | -- | (1,723) |
| Comprehensive income..... | 31,794 | | | | | | |
| Issuance of common stock upon exercise of stock options..... | 5,388 | 5 | -- | 5,383 | -- | -- | -- |
| Income tax benefit related to stock options exercised..... | 2,381 | -- | -- | 2,381 | -- | -- | -- |
| Issuance of stock in connection with Universal Transaction..... | 302,154 | 71 | 76 | 302,007 | -- | -- | -- |
| Issuance of stock in connection with Ticketmaster tax-free merger..... | 467,035 | 160 | -- | 466,875 | -- | -- | -- |
| Issuance of stock in connection with conversion of debentures..... | 199,147 | 122 | -- | 199,025 | -- | -- | -- |
| Conversion of Class B Convertible Common Stock to Common Stock..... | -- | 8 | (8) | -- | -- | -- | -- |
| Amortization of unearned compensation related to stock options and equity participation plans..... | 1,511 | -- | -- | -- | -- | -- | -- |
| BALANCE AT SEPTEMBER 30, 1998... | \$2,456,764 | \$1,240 | \$312 | \$2,533,708 | \$ (77,560) | \$ 7,476 | \$(1,723) |

| | UNEARNED COMPENSATION | NOTE RECEIVABLE FROM KEY EXECUTIVE FOR COMMON STOCK ISSUANCE |
|---|--------------------------|---|
| BALANCE AT JANUARY 1, 1998..... | \$(3,202) | \$(4,998) |
| Comprehensive Income: | | |
| Net earnings for the nine months ended September 30, 1998..... | -- | -- |
| Increase in unrealized gains 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 Universal Transaction..... | -- | -- |
| Issuance of stock in connection with Ticketmaster tax-free merger..... | -- | -- |
| Issuance of stock in connection with conversion of debentures..... | -- | -- |
| Conversion of Class B Convertible Common Stock to Common Stock..... | -- | -- |
| Amortization of unearned compensation related to stock options and equity participation plans..... | 1,511 | -- |

| | | |
|----------------------------------|-----------------------------|-----------------------------|
| BALANCE AT SEPTEMBER 30, 1998... | ----- \$(1,691) ===== | ----- \$(4,998) ===== |
|----------------------------------|-----------------------------|-----------------------------|

The accompanying notes are an integral part of these statements.

USA NETWORKS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | NINE MONTHS ENDED SEPTEMBER 30, | |
|--|------------------------------------|------------|
| | 1998 | 1997 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net earnings..... | \$ 26,041 | \$ 9,758 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization..... | 147,829 | 52,798 |
| Amortization of cable distribution fees..... | 15,883 | 14,327 |
| Amortization of program rights and film costs..... | 358,688 | -- |
| Payment for program rights and film costs..... | (335,001) | -- |
| Deferred income taxes..... | 9,309 | 15,462 |
| Equity in losses of unconsolidated affiliates..... | 16,104 | 9,257 |
| Gain on disposition of broadcast stations and other assets..... | (84,187) | -- |
| Minority interest..... | 42,996 | (98) |
| Non-cash stock compensation..... | 3,892 | 1,623 |
| Non-cash interest..... | 4,800 | 3,163 |
| Changes in current assets and liabilities: | | |
| Accounts receivable..... | (112,685) | (13,521) |
| Inventories..... | (86,067) | (49,310) |
| Accounts payable..... | 67,191 | 23,636 |
| Accrued liabilities..... | 57,712 | (36,115) |
| Other, net..... | 14,226 | (13,377) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES..... | 146,731 | 17,603 |
| Cash flows from investing activities: | | |
| Acquisition of Universal Transaction, net of cash acquired..... | (1,297,233) | -- |
| Acquisitions, net of cash acquired..... | (85,555) | -- |
| Capital expenditures..... | (64,240) | (30,601) |
| Increase in long-term investments..... | (25,631) | (14,786) |
| Proceeds from long-term notes receivable..... | (2,997) | 5,635 |
| Proceeds from disposition of broadcast stations..... | 356,769 | -- |
| Payment of merger and financing costs..... | (29,972) | (6,349) |
| NET CASH USED IN INVESTING ACTIVITIES..... | (1,148,859) | (46,101) |
| Cash flows from financing activities: | | |
| Borrowings..... | 1,641,380 | 231,142 |
| Principal payments on long-term obligations..... | (1,198,565) | (243,784) |
| Cash acquired in the Ticketmaster Transaction..... | -- | 89,663 |
| Cash acquired in the CitySearch Transaction..... | 7,877 | -- |
| Redemption of minority interest in SF Broadcasting..... | (81,664) | -- |
| Proceeds from issuance of common stock and LLC shares..... | 811,018 | 14,992 |
| NET CASH PROVIDED BY (USED) IN FINANCING ACTIVITIES..... | 1,180,046 | 92,013 |
| Effect of exchange rate changes on cash and cash equivalents..... | (1,723) | -- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS..... | 176,195 | 63,515 |
| Cash and cash equivalents at beginning of period..... | 116,036 | 42,606 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD..... | \$ 292,231 | \$ 106,121 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A -- COMPANY HISTORY AND BASIS OF PRESENTATION

COMPANY HISTORY

USA Networks, Inc. (the "Company" or "USAI"), formerly known as HSN, Inc., is a holding company, the subsidiaries of which are engaged in diversified media and electronic commerce businesses.

In December 1996, the Company consummated mergers with each of Home Shopping Network, Inc. ("Home Shopping") and Savoy Pictures Entertainment, Inc. ("Savoy") (the "Mergers"). In July 1997, the Company acquired a controlling interest in Ticketmaster Group, Inc. ("Ticketmaster"). On June 24, 1998, the Company completed its acquisition of Ticketmaster in a tax-free merger, pursuant to which each outstanding share of Ticketmaster common stock not owned by the Company was exchanged for 1.126 shares of common stock, par value \$.01 per share, of USAI ("Common Stock"). The acquisition of the controlling interest and the tax-free merger are referred to as the "Ticketmaster Transaction".

On February 12, 1998, the Company acquired USA Networks, a New York general partnership, consisting of cable television networks USA Network and The Sci-Fi Channel ("Networks"), 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"), and the Company changed its name to USA Networks, Inc. (the "Universal Transaction") -- See Note C.

Following the Universal Transaction, the Company engages in five principal areas of business:

- NETWORKS AND TELEVISION PRODUCTION, which includes Networks and Studios USA. Networks operates the USA Network and The Sci-Fi Channel cable networks and Studios USA produces and distributes television programming.
- ELECTRONIC RETAILING, consisting primarily of the Home Shopping Network and America's Store, which are engaged in the electronic retailing business.
- TICKETING OPERATIONS, which primarily represents Ticketmaster, the leading provider of automated ticketing services in the U.S.
- INTERNET SERVICES, which represents the Company's on-line retailing networks business.
- BROADCASTING, which owns and operates television stations.

BASIS OF PRESENTATION

The interim Condensed Consolidated Financial Statements of the Company are unaudited and should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto for the year ended December 31, 1997.

In the opinion of the Company, all adjustments necessary for a fair presentation of such Condensed Consolidated Financial Statements have been included. Such adjustments consist of normal recurring items. Interim results are not necessarily indicative of results for a full year. The interim Condensed Consolidated Financial Statements and Notes thereto are presented as permitted by the Securities and Exchange Commission and do not contain certain information included in the Company's audited Consolidated Financial Statements and Notes thereto.

The Condensed Consolidated Financial Statements include the operations of Networks and Studios USA from the date of acquisition on February 12, 1998.

Certain amounts in the Condensed Consolidated Financial Statements for the quarter and nine months ended September 30, 1997 have been reclassified to conform to the 1998 presentation.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

NOTE B -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

See the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 for a summary of significant accounting policies.

CONSOLIDATION

The Condensed Consolidated Financial Statements include the accounts of the Company and all wholly-owned and voting-controlled subsidiaries. All significant intercompany transactions and accounts have been eliminated.

Investments in which the Company owns a 20%, but less than a controlling voting interest and where it can exercise significant influence over the operations of the investee, are accounted for using the equity method. All other investments are accounted for using the cost method. The Company periodically evaluates the recoverability of investments recorded under the cost method and recognizes losses if a decline in value is determined to be other than temporary.

REVENUE RECOGNITION

Networks and Television Production

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 date of the license agreement, provided the program is available for exhibition.

Networks advertising revenue is recognized in the period in which the advertising commercials are aired on cable networks. Provisions are recorded against advertising revenues for audience under deliveries ("makegoods"). Affiliate fees are recognized in the period during which the programming is provided.

EARNINGS 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 would share in the earnings of the Company.

COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). The new rules establish standards for the reporting of comprehensive income and its components in financial statements. Comprehensive income consists of net income and other gains and losses affecting stockholders' equity that, under generally accepted accounting principles, are excluded from net income. For the Company, such items consist of unrealized gains and losses on marketable equity investments and foreign currency translation gains and losses. The adoption of SFAS 130 did not have a material effect on the Company's primary financial statements, but did affect the presentation of the accompanying Condensed Consolidated Statement of Stockholders' Equity.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

FILM COSTS

Film costs consist of direct production costs and production overhead, less accumulated amortization. Development roster (and related costs) and abandoned story and development costs are 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 television productions 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, classified as current assets include the portion of unamortized costs of television program productions allocated to network, first run syndication and initial international distribution markets. The allocated portion of released film costs expected to be recovered from secondary markets or other exploitation is reported as a noncurrent asset. Other costs relating to television productions, such as television program development costs, in-process productions and the television program library, are classified as noncurrent 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.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ from those estimates.

Significant estimates underlying the accompanying Condensed Consolidated Financial Statements and Notes include the inventory carrying adjustment, sales return accrual, allowance for doubtful accounts, recoverability of intangibles and other long-lived assets, management's forecast of anticipated revenues from the distribution of television product in order to evaluate the ultimate recoverability of film inventory and amortization of program usage.

RECENTLY ISSUED PRONOUNCEMENTS

During fiscal 1997, Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") was issued. SFAS 131 requires disclosure of financial and descriptive information about an entity's reportable operating segments under the "management approach" as defined in the Statement. The Company will adopt SFAS 131 as of December 31, 1998. The impact of adoption of this standard on the Company's financial statements is not expected to be material.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

NOTE C -- BUSINESS ACQUISITIONS

UNIVERSAL TRANSACTION

In connection with the Universal Transaction, USAi paid Universal approximately \$4.1 billion in the form of a cash payment of approximately \$1.6 billion, a portion of which (\$300 million plus interest) was deferred until no later than June 30, 1998, and an effective 45.8% interest in the Company through shares of common stock, par value \$.01 per share, of the Company (the "Common Stock") and Class B common stock, par value \$.01 per share, of the Company (the "Class B Common Stock"), and shares ("LLC Shares") of a newly formed limited liability company ("USANi LLC") which are exchangeable (subject to regulatory restrictions) into shares of Common Stock and Class B Common Stock. At the closing of the Universal Transaction, USAi contributed its Home Shopping business to USANi LLC, a subsidiary of USAi. Simultaneously with this transaction, the remaining 1,178,322 shares of Class B Common Stock, contingently issuable to Liberty Media Corporation ("Liberty") in connection with the Mergers, were issued.

The Investment Agreement, as amended and restated as of December 18, 1997, among the Company, Home Shopping, Universal and Liberty (the "Investment Agreement"), relating to the Universal Transaction also contemplated that, on or prior to June 30, 1998, the Company and Liberty, a subsidiary of Tele-Communications, Inc. ("TCI"), would complete a transaction involving a \$300 million cash investment, plus an interest factor, by Liberty in the Company through the purchase of Common Stock or LLC Shares. The transaction closed on June 30, 1998 with Liberty making a cash payment of \$308.5 million in exchange for 15,000,000 LLC shares.

The Universal Transaction has been accounted for using the purchase method of accounting. The purchase price of \$4.1 billion including expenses, has been preliminarily allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of purchase. The fair value of the assets acquired and liabilities assumed are summarized below, along with the excess of the purchase price, including expenses, over the fair value of net assets, which has been assigned to goodwill.

| | |
|------------------------------|----------------|
| ----- | |
| ----- | |
| | (In thousands) |
| Current assets..... | \$ 431,955 |
| Non-current assets..... | 329,549 |
| Goodwill..... | 4,157,720 |
| Current liabilities..... | 408,254 |
| Non-current liabilities..... | 395,439 |

TICKETMASTER TRANSACTION

In connection with the Ticketmaster tax-free merger, the Company issued 15,967,200 shares of USAi Common Stock to the public shareholders of Ticketmaster and converted 3.6 million options to acquire Ticketmaster common stock into options to acquire USAi Common Stock for a total consideration of \$467.7 million, which has been preliminarily allocated to intangible assets.

CITYSEARCH TRANSACTION

On September 28, 1998, pursuant to an Amended and Restated Agreement and Plan of Reorganization among CitySearch, Inc. ("CitySearch"), the Company, Ticketmaster and certain of its subsidiaries, the Company merged the online ticketing operations of Ticketmaster ("Ticketmaster Online") into a subsidiary of CitySearch, a publisher of local city guides on the Web (the "CitySearch Merger"), to create Ticketmaster Online-CitySearch, Inc. ("TMCS"). The Company had acquired Ticketmaster Online as part of the Ticketmaster Transaction and has preliminarily allocated to Ticketmaster Online a total of \$154.8 million of the goodwill resulting from the Company's acquisition of Ticketmaster. The CitySearch Merger was accounted for using the "reverse purchase" method of accounting, pursuant to which Ticketmaster Online was treated as the acquiring entity for accounting purposes, and the portion of the assets and liabilities of CitySearch acquired were recorded at their respective fair values under the purchase method of accounting.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

Prior to the CitySearch Merger, the Company owned approximately 11.8% of CitySearch, which it had purchased for total consideration of \$23.0 million. Pursuant to the CitySearch Merger, the Company acquired 50.7% of CitySearch in exchange for an effective 35.2% interest in Ticketmaster Online. The total purchase price for the acquisition of the additional CitySearch interest was approximately \$120.9 million, substantially all of which was allocated to goodwill which will be amortized over three years.

In connection with the CitySearch Merger, on October 2, 1998, the Company commenced a Tender Offer to acquire from other TMCS stockholders up to 2,924,339 shares of TMCS common stock. The Company purchased 1,997,502 TMCS shares pursuant to the Tender Offer, which was completed on November 3, 1998, representing an additional 3.1% interest in CitySearch, for total consideration of \$17.3 million. Following the completion of the Tender Offer, the Company beneficially owns approximately 67.9% of TMCS outstanding shares. The CitySearch Merger and Tender Offer are referred to as the "CitySearch Transaction".

In connection with the CitySearch Transaction, the Company recorded a deferred gain of \$65.8 million by exchanging a 35.2% interest in Ticketmaster Online with a basis of \$55.1 million for a 50.7% interest in CitySearch, which had a fair value of \$120.9 million. The gain was deferred because the stockholders of CitySearch have various put options on their TMCS stock to USAi, which put options terminate upon the completion of a qualified initial public offering, as defined. This gain will be recognized at the time of the completion of the TMCS initial public offering.

The following unaudited pro forma condensed consolidated financial information for the three month and nine month periods ended September 30, 1998 and 1997, is presented to show the results of the Company, as if the Universal Transaction, the Ticketmaster Transaction, the CitySearch Transaction and the sale of the SF Broadcasting television stations (See Note J) all occurred at the beginning of the periods presented. The pro forma results include certain adjustments, including increased amortization related to goodwill, the reduction of programming costs for fair value adjustments related to purchase accounting and the elimination of intercompany revenues and expenses, and are not necessarily indicative of what the results would have been had those transactions actually occurred on the aforementioned dates.

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|-------------------------------------|------------|------------------------------------|-------------|
| | 1998 | 1997 | 1998 | 1997 |
| (In thousands, except per share data) | | | | |
| Net revenues..... | \$643,247 | \$600,364 | \$2,008,570 | \$1,816,386 |
| Net earnings (loss)..... | \$(19,734) | \$(20,061) | \$ (8,080) | \$ (75,774) |
| | ===== | ===== | ===== | ===== |
| Basic earnings (loss) per common share..... | \$ (.13) | \$ (.13) | \$ (.05) | \$ (.53) |
| | ===== | ===== | ===== | ===== |
| Diluted earnings (loss) per common share..... | \$ (.13) | \$ (.13) | \$ (.05) | \$ (.53) |
| | ===== | ===== | ===== | ===== |

NOTE D -- CREDIT FACILITIES AND CONVERTIBLE SUBORDINATED DEBENTURES

On February 12, 1998, the Company, and certain of its subsidiaries, including USAni LLC as borrower, entered into a new \$1.6 billion credit facility (the "New Facility") with a \$40.0 million sub-limit for letters of credit. The New Facility was used to finance the Universal Transaction and to refinance the Company's existing facility. The New Facility consists of a \$600.0 million revolving credit facility, a \$750.0 million Tranche A Term Loan and a \$250.0 million Tranche B Term Loan. On August 5, 1998, the Company repaid the Tranche B Term Loan in its entirety. The revolving credit facility and the Tranche A Term Loan mature on December 31, 2002. The New Facility is guaranteed by, and secured by stock in, substantially all of the Company's material subsidiaries. The interest rate on borrowings under the New Facility is tied to an alternate base rate or the London InterBank Rate, in each case, plus an applicable margin. The interest rate under the New Facility was 6.62% at September 30, 1998. As of September 30, 1998, there was \$750.0 million in outstanding borrowings under the New Facility and \$599.9 million was available for borrowing after taking into account outstanding letters of credit.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

As of March 1, 1998, the 5 7/8% Convertible Subordinated Debentures were converted into 7,499,022 shares of Common Stock.

In connection with the acquisition of the remaining interest in Ticketmaster as of June 24, 1998, the Company repaid all amounts outstanding under the Ticketmaster Credit Agreement using proceeds from the New Facility.

In connection with the sale of the SF Broadcasting television stations on July 16, 1998, the Company repaid all amounts outstanding under the SF Broadcasting Credit Facility using proceeds from the sale.

NOTE E -- INCOME TAXES

The Company's effective tax rates of 48.9% and 51.3% for the quarter and nine months ended September 30, 1998, respectively, are higher than the statutory rate due primarily to non-deductible goodwill and other acquired intangibles, losses in non-consolidated foreign joint ventures, and state income taxes. During the remainder of 1998, the Company's effective tax rate is expected to be higher than the statutory rate as a result of the items mentioned above.

NOTE F -- CONSOLIDATED STATEMENTS OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998:

(In thousands)

ACQUISITION OF NETWORKS AND STUDIOS USA

| | |
|---|--------------|
| Acquisition price..... | \$ 4,115,531 |
| Less: Amount paid in cash..... | (1,300,983) |
| | ----- |
| Total non-cash consideration..... | \$ 2,814,548 |
| | ===== |
| Components of non-cash consideration: | |
| Deferred purchase price liability..... | \$ 300,000 |
| Issuance of Common Shares and Class B Shares..... | 277,898 |
| Issuance of USANi LLC Shares..... | 2,236,650 |
| | ----- |
| | \$ 2,814,548 |
| | ===== |
| Exchange of Minority Interest in USANi LLC for Deferred Purchase Price Liability, including interest..... | \$ 304,636 |
| | ===== |

As of March 1, 1998 the 5 7/8% Convertible Subordinated Debentures were converted to 7,499,022 shares of Common Stock.

In connection with the Universal Transaction, the Company issued 1,178,322 shares of Class B Common Stock to Liberty, which represented the remaining contingently issuable shares in connection with the Mergers.

During the nine months ended September 30, 1998, the Company acquired computer equipment through a capital lease totaling \$15.5 million.

In connection with the acquisition of the remaining interest in Ticketmaster, the Company issued 15,967,200 shares of Common Stock.

In connection with the sale of the SF Broadcasting television stations, as part of the total consideration, the Company received a note in the amount of \$25.0 million. This note was transferred to the minority interest shareholder of SF Broadcasting as part of the redemption of their interest.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

In connection with the CitySearch Transaction, the Company exchanged an effective 35.2% interest in Ticketmaster Online for a 50.7% interest in CitySearch.

NOTE G -- INVENTORIES

| INVENTORIES CONSIST OF | SEPTEMBER 30, 1998 | | DECEMBER 31, 1997 | |
|---|-----------------------|------------|----------------------|------------|
| | CURRENT | NONCURRENT | CURRENT | NONCURRENT |
| (In thousands) | | | | |
| Film costs: | | | | |
| Released, less amortization..... | \$ 70,140 | \$ 63,408 | | |
| In process and unreleased..... | 14,609 | -- | | |
| Programming costs, net of amortization..... | 178,318 | 134,521 | | |
| Merchandise held for sale..... | 173,121 | -- | \$151,100 | \$ -- |
| Other..... | 9,237 | 4,188 | -- | -- |
| Total..... | \$445,425 | \$202,117 | \$151,100 | \$ -- |
| | ===== | ===== | ===== | ===== |

The Company estimates that approximately 90% of unamortized film costs at September 30, 1998 will be amortized within the next three years.

NOTE H -- SAVOY SUMMARIZED FINANCIAL INFORMATION (UNAUDITED)

The Company has not presented 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.

| SUMMARIZED OPERATING INFORMATION | NINE MONTHS ENDED SEPTEMBER 30, | |
|----------------------------------|------------------------------------|-----------|
| | 1998 | 1997 |
| (In thousands) | | |
| Net revenue..... | \$33,938 | \$ 50,816 |
| Operating expenses..... | 36,432 | 52,063 |
| Operating loss..... | (2,494) | (8,309) |
| Net earnings(loss)..... | 35,118 | (6,534) |

| SUMMARY BALANCE SHEET INFORMATION | SEPTEMBER 30, | | DECEMBER 31, |
|-----------------------------------|---------------|-----------|--------------|
| | 1998 | 1997 | 1997 |
| (In thousands) | | | |
| Current assets..... | \$ 29,140 | \$ 39,777 | \$ 31,898 |
| Non-current assets..... | 132,440 | 289,171 | 289,381 |
| Current liabilities..... | 9,156 | 33,563 | 32,836 |
| Non-current liabilities..... | 55,900 | 116,360 | 110,470 |
| Minority interest..... | -- | 119,091 | 119,427 |

For the nine months ended September 30, 1998, the Net earnings line includes an after-tax gain on the sale of the SF Broadcasting television stations totalling \$36.3 million, which has been eliminated in the consolidation of the Company's financial statements. Amounts include the operations of SF Broadcasting through July 16, 1998 the date on which the Company sold the SF Broadcasting television stations -- See Note J.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

NOTE I -- PROGRAM RIGHTS AND FILM COSTS

As of September 30, 1998, the liability for program rights, representing future payments to be made under program contract agreements amounted to \$554.0 million. Annual payments required are \$62.2 million for the remainder of 1998, \$176.8 million in 1999, \$113.4 million in 2000, \$66.9 million in 2001, \$49.9 million in 2002 and \$84.8 million in 2003 and thereafter. Amounts representing interest are \$24.0 million and the present value of future payments is \$530.0 million.

As of September 30, 1998, the liability for film costs amounted to \$91.6 million. Annual payments are \$68.9 million in 1998 and \$22.7 million in 1999.

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 September 30, 1998, the unrecorded commitments amounted to \$664.3 million. Annual commitments are \$6.2 million for the remainder of 1998, \$79.1 million in 1999, \$129.0 million in 2000, \$121.4 million in 2001, \$104.4 million in 2002 and \$224.2 million in 2003 and thereafter.

NOTE J -- BROADCAST STATION TRANSACTIONS

On January 20, 1998, the Company completed the sale of its Baltimore television station for \$80.0 million resulting in a pre-tax gain of \$74.9 million during the first quarter of 1998.

On June 18, 1998, the Company purchased a television station serving the Atlanta, Georgia market for \$50 million. On June 18, 1998, the Company completed the acquisition of the remaining equity interest in an entity which owned three television stations and immediately sold the television station serving Portland, Oregon. The two remaining stations serve Orlando, Florida and Rapid City, South Dakota. The Company sold the station serving Rapid City on October 30, 1998.

On July 16, 1998, the Company sold the assets of SF Broadcasting, which owns and operates four television stations. The total consideration received by SF Broadcasting was \$307 million, of which the Company's share was approximately \$110 million, net of repayment of bank debt outstanding and redemption of minority interest. No after-tax gain or loss was realized on the disposition of the SF television stations.

ITEM 2 -- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

USA Networks, Inc. (the "Company" or "USAi"), formerly known as HSN, Inc., is a holding company, the subsidiaries of which are engaged in diversified media and electronic commerce businesses. In July, 1997, the Company acquired a controlling interest in Ticketmaster Group, Inc. ("Ticketmaster"). On June 24, 1998, the Company completed its acquisition of the remaining common stock of Ticketmaster in a tax-free merger by exchanging 1.126 shares of Common Stock for each outstanding share of Ticketmaster common stock not owned by the Company. The acquisition of the controlling interest and the tax-free merger are referred to as the "Ticketmaster Transaction". On February 12, 1998, the Company acquired cable television networks USA Network and The Sci-Fi Channel (collectively, "Networks") as well as the domestic television production and distribution business of Universal Studios ("Studios USA") from Universal Studios, Inc. (the "Universal Transaction") and changed the Company's name to USA Networks, Inc. Following the Universal Transaction, the Company's principal areas of business are the operation of cable networks and the production and distribution of television programming (through its Networks and television production business), electronic retailing (through its Home Shopping business), automated ticketing services (through Ticketmaster), the ownership and operation of television stations (through USA Broadcasting), and Internet services. During 1996, the Company merged with Home Shopping Network, Inc. ("Home Shopping") and Savoy Pictures Entertainment, Inc. ("Savoy") (collectively, the "Mergers"). The Ticketmaster Transaction, the Universal Transaction and the Mergers were accounted for using the purchase method of accounting.

Prior to the Universal Transaction, the Company's principal areas of business were electronic retailing, ticketing operations and television broadcasting. The electronic retailing business principally operates two services, The Home Shopping Network and America's Store (together "HSN"). The ticketing operations business sells approximately 70 million tickets a year through 2,900 retail center outlets, 25 telephone call centers and an Internet site and is the leading provider of automated ticketing services in the U.S. The television broadcasting business owns and operates twelve full-power UHF television stations (the "USA Stations"). Share numbers, earnings per share and conversion ratios reflect the Company's two-for-one stock split to holders of record at the close of business on March 12, 1998.

EBITDA

Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is defined as operating profit plus depreciation and amortization. EBITDA is presented here as a management tool and as a valuation methodology for companies in the media, entertainment and communications industries. EBITDA does not purport to represent cash provided by operating activities. EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

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 IN THE MARKETS SERVED BY THE COMPANY; FUTURE REGULATORY 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 COMMERCIALLY REASONABLE TERMS; AND OBTAINING AND RETAINING KEY EXECUTIVES AND EMPLOYEES.

TRANSACTIONS AFFECTING THE COMPARABILITY OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

During the past two years, the Company has pursued several strategic initiatives that have resulted in the acquisition and development of several new businesses. As a result, the following changes should be considered when comparing the Company's results of operations and financial position. These include the Universal Transaction in February 1998 and the Ticketmaster Transaction in July 1997 and June 1998. The acquisitions caused a significant increase in net revenues, operating costs and expenses and operating profit. To enhance comparability, the discussion of consolidated results of operations is supplemented, where appropriate, with separate pro forma financial information that gives effect to the above transactions as if they had occurred at the beginning of the respective periods presented. The pro forma information is not necessarily indicative of the revenues and cost of revenues that would have actually been reported had the Universal Transaction and the Ticketmaster Transaction occurred at the beginning of the respective periods, nor is it necessarily indicative of future results.

A. CONSOLIDATED RESULTS OF OPERATIONS

The following discussions present the material changes in the consolidated results of operations of the Company for the quarter and nine months ended September 30, 1998, compared with the quarter and nine months ended September 30, 1997. The operations of the quarter and nine months ended September 30, 1997 consist of the operations of Home Shopping, Savoy, USA Broadcasting and, since July 17, 1997, Ticketmaster, while the operations of the quarter and nine months ended September 30, 1998 consist of Home Shopping, Savoy, USA Broadcasting, Ticketmaster and, since February 12, 1998, the results of Networks and Studios USA. Reference should also be made to the unaudited Condensed Consolidated Financial Statements included herein.

QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 VS. QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1997

The Universal Transaction and the Ticketmaster Transaction resulted in significant increases in net revenues, operating costs and expenses, other income (expense), minority interest and income taxes and will continue to materially impact the Company's operations for the remainder of 1998 when compared to 1997, and accordingly, no significant discussion of these fluctuations is presented.

NET REVENUES

For the quarter ended September 30, 1998, revenues increased \$314 million compared to 1997 primarily due to increases of \$281 million, \$22 million, and \$21 million from the Networks and television production business, Ticketing operations, and Electronic retailing, respectively.

For the nine months ended September 30, 1998, revenues increased \$996 million compared to 1997 primarily due to increases of \$757 million, \$216 million, and \$24 million from the Networks and television production business, Ticketing operations, and Electronic retailing, respectively.

OPERATING COSTS AND EXPENSES

For the quarter ended September 30, 1998, operating expenses increased \$287 million compared to 1997 primarily due to increases of \$250 million and \$24 million from the Networks and television production business and Ticketing operations, respectively.

For the nine months ended September 30, 1998, operating expenses increased \$903 million compared to 1997 primarily due to increases of \$641 million, \$206 million and \$64 million from the Networks and television production business, Ticketing operations, and Electronic retailing, respectively.

OTHER INCOME (EXPENSE)

For the quarter and nine months ended September 30, 1998, net interest expense increased \$15 million and \$65 million, respectively, compared to 1997 primarily due to interest incurred on the new credit facility to finance

the Universal Transaction and non-cash interest expense on long-term program liabilities at the Networks and television production business.

On January 20, 1998, the Company sold its Baltimore television station at a gain of \$74.9 million. On July 16, 1998, the Company completed the sale of the assets of SF Broadcasting for a pre-tax gain of \$9.2 million.

For the nine months ended September 30, 1998, other expense increased \$10 million compared to 1997 primarily due to losses from international joint ventures of Home Shopping and Networks and television production business.

INCOME TAXES

The Company's effective tax rate of 48.9% and 51.3% for the quarter and nine months ended September 30, 1998 is higher than the statutory rate due primarily to non-deductible goodwill and other acquired intangible and state income taxes. During the remainder of 1998, the Company's effective tax rate is expected to be higher than the statutory rate as a result of the items mentioned above and higher than the first nine months rate because the gain on the sale of the Baltimore television station in the first quarter had the effect of lowering the Company's effective tax rate.

MINORITY INTEREST

For the quarter and nine months ended September 30, 1998, minority interest represents Universal's and Liberty's ownership interest in USANi LLC for the period February 12 through September 30, 1998, Liberty's ownership interest in Home Shopping, Fox Broadcasting Company's 50% ownership interest in SF Broadcasting for the period January 1 through July 16, 1998 and the public's ownership interest in Ticketmaster for the period January 1 through June 24, 1998.

PRO FORMA QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 VS. PRO FORMA QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1997

The following unaudited pro forma operating results of the Company present combined results of operations as if the Universal Transaction, Ticketmaster Transaction and the sale of the assets of SF Broadcasting all had occurred on January 1, 1998 and 1997, respectively.

As of September 28, 1998, the Company completed the CitySearch Merger (as defined below). For comparative purposes, the impact of the CitySearch Transaction has not been reflected in the following pro forma presentation of results of operations. During the first nine months of 1998, CitySearch generated operating losses of \$27.3 million and negative EBITDA of \$24.2 million. The operating losses and negative EBITDA are expected to continue for the foreseeable future.

The Unaudited Combined Condensed Pro Forma Statements of Operations are presented for illustrative purposes only and are not necessarily indicative of the results of operations that would have actually been reported had any of the transactions occurred as of January 1, 1998 and 1997, respectively, nor are they necessarily indicative of future results of operations.

USA NETWORKS, INC. AND SUBSIDIARIES

UNAUDITED COMBINED CONDENSED PRO FORMA STATEMENTS OF OPERATIONS

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED JUNE 30, | |
|---|-------------------------------------|-----------|-------------------------------|------------|
| | 1998 | 1997 | 1998 | 1997 |
| (In thousands, except per share data) | | | | |
| NET REVENUES: | | | | |
| Networks and television production..... | \$281,302 | \$255,762 | \$ 914,669 | \$ 777,710 |
| Electronic retailing..... | 261,183 | 236,706 | 776,418 | 743,893 |
| Ticketing operations..... | 89,134 | 91,489 | 283,538 | 268,462 |
| Internet services..... | 5,934 | 3,330 | 14,467 | 8,511 |
| Broadcasting and other..... | 1,175 | 6,294 | 8,161 | 14,147 |
| Total net revenues..... | 638,728 | 593,581 | 1,997,253 | 1,812,723 |
| Operating costs and expenses: | | | | |
| Cost related to revenues..... | 345,882 | 306,356 | 1,029,886 | 936,771 |
| Other costs and expenses..... | 183,268 | 182,153 | 605,591 | 563,309 |
| Depreciation and amortization..... | 58,168 | 57,841 | 177,630 | 173,880 |
| Total operating costs and expenses..... | 587,318 | 546,350 | 1,813,107 | 1,673,960 |
| Operating profit..... | \$ 51,410 | \$ 47,231 | \$ 184,146 | \$ 138,763 |
| EBITDA..... | \$109,578 | \$105,072 | \$ 361,776 | \$ 312,643 |

For the quarter ended September 30, 1998, pro forma revenues for the Company increased \$45.1 million, or 7.6%, to \$638.7 million from \$593.6 million compared to 1997. For the quarter ended September 30, 1998, pro forma cost related to revenues and other costs and expenses increased \$40.6 million, or 8.3%, to \$529.1 million from \$488.5 million compared to 1997.

For the nine months ended September 30, 1998, pro forma revenues for the Company increased \$184.5 million, or 10.2%, to \$2.0 billion from \$1.8 billion compared to 1997. For the nine months ended September 30, 1998, pro forma cost related to revenues and other costs and expenses increased \$135.4 million or 9.0%, to \$1.6 billion from \$1.5 billion compared to 1997.

For the quarter ended September 30, 1998, pro forma EBITDA increased \$4.5 million, or 4.3%, to \$109.6 million from \$105.1 million compared to 1997.

For the nine months ended September 30, 1998, pro forma EBITDA increased \$49.2 million, or 15.7%, to \$361.8 million from \$312.6 million compared to 1997.

The following discussion provides an analysis of the aforementioned increases in pro forma revenues and costs related to revenues and other costs and expenses by significant business segment.

Networks and Television Production

Net revenue for the quarter ended September 30, 1998 increased by \$25.5 million, or 10.0%, to \$281.3 million from \$255.8 million compared to 1997. The increase primarily resulted from an increase in advertising revenues at USA Network and The Sci-Fi Channel cable networks, an increase in affiliate revenues at both networks and increased revenues from first run syndication product at Studios USA. The increase in advertising revenue resulted from both higher ratings and a higher percentage of available advertising spots sold compared to the prior year. The increase in affiliate revenues resulted primarily from a significant increase in the number of subscribers at The Sci-Fi Channel and higher affiliate fees at both networks. The increase in first run syndication revenue resulted from higher barter revenue from higher ratings and greater foreign sales.

Net revenue for the nine months ended September 30, 1998 increased \$137.0 million, or 17.6%, to \$914.7 million from \$777.7 million compared to 1997. The increase in revenues resulted primarily from higher

advertising and affiliate revenues at both USA Network and The Sci-Fi Channel and higher ratings on first run syndication product by Studios USA.

Cost related to revenues and other costs and expenses for the quarter ended September 30, 1998 increased by \$18.8 million, or 9.2%, to \$221.8 million from \$203.0 million compared to 1997. This increase results primarily from the cost of increased deliveries of first run syndication product by Studios USA and higher cost of original programming at USA Network, partially offset by the absence in 1998 of write offs of USA Network programming recorded in 1997.

Cost related to revenues and other costs and expenses for the nine months ended September 30, 1998 increased \$59.9 million, or 9.6%, to \$686.8 million from \$626.9 million compared to 1997. The increase is primarily due to higher cost of network and first run syndication product at Studios USA and slightly higher cost of programming at The Sci-Fi Channel partially offset by lower cost of programming at USA Network.

EBITDA for the quarter ended September 30, 1998 increased \$19.5 million, or 36.9%, to \$72.2 million from \$52.7 million compared to 1997.

EBITDA for the nine months ended September 30, 1998 increased \$89.7 million, or 59.5%, to \$240.5 million from \$150.8 million compared to 1997.

Electronic Retailing

Net revenue for the quarter ended September 30, 1998 increased by \$24.5 million, or 10.3%, to \$261.2 million from \$236.7 million compared to 1997. The increase primarily results from increased sales of hardgoods, which includes consumer electronics, collectibles and housewares. Total units shipped increased by 9.4% to 7.0 million units compared to 6.4 million units in 1997 and the average price point increased by 1.1%. The increase in net revenue also reflects a decrease in the return rate to 20.8% from 22.8% compared to 1997.

Net revenue for the nine months ended September 30, 1998 increased \$32.5 million, or 4.4%, to \$776.4 million from \$743.9 million compared to 1997. Total units shipped increased 5.1% to 20.6 million units compared to 1997 and the average price point decreased by 1.5%.

Cost related to revenues and other costs and expenses for the quarter ended September 30, 1998 increased by \$20.8 million, or 10.4%, to \$220.0 million from \$199.2 million compared to 1997. This increase resulted primarily from higher net revenues and the sale of merchandise at lower gross margins (38.3% in 1998 compared to 38.2% in 1997).

Cost related to revenues and other costs and expenses for the nine months ended September 30, 1998 increased \$45.3 million, or 7.4%, to \$661.0 million from \$615.7 million compared to 1997. This increase resulted from higher net revenues, the sale of merchandise at lower gross margins (39.7% in 1998 compared to 41.4% in 1997) and from higher merchandising personnel costs.

EBITDA for the quarter ended September 30, 1998 increased \$3.9 million, or 10.5%, to \$41.4 million from \$37.5 million compared to 1997.

EBITDA for the nine months ended September 30, 1998 decreased \$12.7 million, or 9.9%, to \$115.5 million from \$128.2 million compared to 1997.

Ticketing Operations

Net revenue for the quarter ended September 30, 1998 decreased by \$2.4 million, or 2.6%, to \$89.1 million from \$91.5 million compared to 1997. The decrease resulted from a slight decrease in the number of tickets sold, reflecting the absence in 1998 of any major outdoor concerts and the ceasing of the publication of the Company's event guide magazine, partially offset by an increase in ticketing revenue due to an increase in revenue per ticket to \$4.68 from \$4.54 compared to 1997.

Net revenue for the nine months ended September 30, 1998 increased \$15.0 million, or 5.6%, to \$283.5 million from \$268.5 million compared to 1997. The increase resulted from an increase of 3.2% in the number of tickets sold, including an increase of 1.2 million in the number of tickets sold on-line, and an increase in revenue

per ticket to \$4.68 from \$4.47 compared to 1997. This increase was partially offset by a decrease of \$2.9 million in publication revenue due to the ceasing of publishing the Company's event guide magazine.

Cost related to revenues and other costs and expenses for the quarter ended September 30, 1998 decreased by \$1.0 million, or 1.3%, to \$74.3 million from \$75.3 million compared to 1997. The decrease resulted primarily from the sale of fewer tickets and the ceasing of the publication of the Company's event guide magazine, offset by costs incurred to launch ticketing operations in Northern California, South America and France.

Cost related to revenues and other costs and expenses for the nine months ended September 30, 1998 increased \$16.0 million, or 7.2%, to \$239.6 million from \$223.6 million compared to 1997. This increase resulted from higher ticketing operation costs resulting from higher ticketing revenue and from costs incurred to launch ticketing operations in Northern California, South America and France, partially offset by the ceasing of the publication of the Company's event guide magazine.

EBITDA for the quarter ended September 30, 1998 decreased \$1.4 million, or 8.6%, to \$14.8 million from \$16.2 million compared to 1997.

EBITDA for the nine months ended September 30, 1998 decreased \$1.0 million, or 2.2%, to \$43.9 from \$44.9 compared to 1997.

Internet Services

Net revenue for the quarter ended September 30, 1998 increased \$2.6 million to \$5.9 million in 1998 compared to \$3.3 million in 1997. The increase resulted from an increase in registered users to the primary service, First Auction. Net revenue for the nine months ended September 30, 1998 increased \$6.0 million to \$14.5 million in 1998 from \$8.5 million compared to 1997.

EBITDA loss increased to \$3.9 million for the quarter ended September 30, 1998 compared to \$2.1 million in 1997 and for the nine months ended September 30, 1998 increased to \$9.6 million from \$5.5 million compared to 1997, primarily due to costs to maintain and enhance the Internet services and to increased advertising and promotion costs.

On September 28, 1998, the Company completed the CitySearch Merger. During the first nine months of 1998, CitySearch generated operating losses of \$27.3 million and negative EBITDA of \$24.2 million. The operating losses and negative EBITDA are expected for the foreseeable future.

Broadcasting and Other

Net revenue includes revenue generated from the distribution of films from the Savoy library acquired as a result of the Mergers and revenues generated at the Miami television station.

Other costs related to revenues and other costs and expenses include costs to generate the Savoy revenues, corporate expenses and \$6.3 million and \$11.1 million of cost in the quarter and nine months ended September 30, 1998, respectively, to launch the Miami station.

B. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$146.7 million for the nine months ended September 30, 1998. These cash proceeds were used to pay for capital expenditures of \$64.2 million, to make long-term investments totalling \$25.6 million and to reduce amounts outstanding under the Company's bank loans.

Consolidated capital expenditures for the nine months ended September 30, 1998 relate in part to the build-out of the Miami station. Consolidated capital expenditures are expected to range from \$80.0 million to \$90.0 million in 1998.

On February 12, 1998, the Company and certain of its subsidiaries, including USAni LLC as borrower, entered into a new \$1.6 billion credit facility (the "New Facility") with a \$40.0 million sub-limit for letters of credit. The New Facility was used to finance the Universal Transaction and to refinance the Company's existing \$275.0 million revolving credit facility. The New Facility consists of a \$600.0 million revolving credit facility, a

\$750.0 million Tranche A Term Loan and a \$250.0 million Tranche B Term Loan. On August 5, 1998, the Company repaid the Tranche B Term Loan in the amount of \$250.0 million from cash on hand. The revolving credit facility and the Tranche A Term Loan mature on December 31, 2002. The New Facility is guaranteed by, and secured by stock in, substantially all of the Company's material subsidiaries. The interest rate on borrowings under the New Facility is tied to an alternate base rate or the London InterBank Rate, in each case, plus an applicable margin. As of October 30, 1998, there was \$750.0 million in outstanding borrowings under the New Facility and \$599.9 million was available for borrowings after taking into account outstanding letters of credit. As of October 30, 1998, the borrowing rate on loans outstanding under the Tranche A Term Loan was 6.2%.

On February 12, 1998, the Company completed the Universal Transaction. The consideration paid to Universal included a cash payment of \$1.6 billion, a portion of which (\$300.0 million plus interest) was deferred until no later than June 30, 1998. The Investment Agreement relating to the Universal Transaction also contemplated that, on or prior to June 30, 1998, the Company and Liberty would complete a transaction involving a \$300.0 million cash investment, plus an interest factor, by Liberty in the Company through the purchase of USANi LLC shares. Pursuant to this agreement, on June 30, 1998, Liberty contributed \$308.5 million in exchange for 15,000,000 USANi LLC shares.

Pursuant to the Investment Agreement, the Company has granted to Universal and Liberty preemptive rights with respect to future issuances of USAi Common Stock and USAi Class B Common Stock, which generally allow Universal and Liberty the right to maintain an ownership percentage equal to the ownership percentage such entity held, on a fully converted basis, immediately prior to such issuance. In addition, Universal had certain mandatory purchase obligations with respect to USAi Common Stock (or USANi LLC shares) issued with respect to the conversion of the 5 7/8% Debentures and the Ticketmaster tax-free merger. During the period from February 12, 1998 through July 27, 1998, Universal and Liberty contributed approximately \$787 million pursuant to the preemptive rights in exchange for Common Stock and USANi LLC shares. These preemptive rights exercises are described more fully below.

In connection with the Universal Transaction, the Company entered into a joint venture agreement relating to the development of international general entertainment television channels including international versions of USA Network, The Sci-Fi Channel and Universal's action/adventure channel 13th Street. Unless the Company elects to have Universal buy out its interest in the venture, the Company and Universal will be 50-50 partners in the venture, which will be managed by Universal. USANi LLC and Universal have each committed to contribute \$100 million in capital in the venture over a number of years. The decision by the Company on whether to have Universal buy out its interest in the joint venture is expected to be made during the fourth quarter of 1998.

In connection with the Universal Transaction and other strategic initiatives, the Company anticipates that it will need to invest working capital in connection with the development and expansion of its overall operations.

The Company implemented its plan to disaffiliate its station in the Miami, Florida market in June 1998. The Company has incurred and will continue to incur expenditures to develop programming and promotion of this station, which during the development and transitional stage, may not be offset by sufficient advertising revenues. The Company may also transition additional broadcasting stations to the new format in 1999. The Company believes that the process of disaffiliation can be successfully managed so as not to have a material adverse effect on the Company and so as to maximize the value of the broadcasting stations.

During the remainder of 1998, management expects to pay cable distribution fees of between \$5.0 million and \$25.0 million, relating to new and current contracts with cable systems operators to carry Home Shopping's programming.

On June 24, 1998 the Company completed its acquisition of Ticketmaster by issuing 15,967,200 shares of USAi Common Stock to the public shareholders of Ticketmaster and converted 3.6 million options to acquire Ticketmaster common stock into options to acquire USAi Common Stock for a total consideration of \$467.0 million. In connection with the closing of the acquisition, the Company repaid all outstanding borrowings under the Ticketmaster credit agreement using proceeds from the New Facility. In connection with the Ticketmaster tax-free merger, Universal and Liberty exercised their preemptive rights with respect to the issuance of 12.6 million shares of USAi Common Stock to the holders of Ticketmaster common stock. In the aggregate, Universal and

Liberty acquired 24,649,716 USANi LLC Shares in exchange for total consideration of \$493.0 million. Of that amount, \$105.2 million was applied to the remainder of the Universal deferred purchase price obligation (including accrued interest) and the remainder was received in cash. These transactions closed in July 1998.

On January 20, 1998, the Company consummated the sale of its Baltimore, Maryland television station for \$80.0 million. On June 18, 1998, the Company purchased a television station serving the Atlanta, Georgia, market. On June 18, 1998 the Company acquired the remaining interest in an entity partially owned by the Company, which owned television stations serving the Orlando, Florida; Portland, Oregon and Rapid City, South Dakota markets. The aggregate purchase prices for these transactions was approximately \$70.0 million. The proceeds from the sale of the Baltimore station were used, in part, to complete the purchase of the Atlanta station. On June 19, 1998 the Company sold the station serving Portland, Oregon for total cash consideration of \$30 million. On October 30, 1998, the Company sold the station serving Rapid City, South Dakota for total consideration of \$5.5 million.

As of March 1, 1998, the Company redeemed, at a redemption price of 104.7% of the principal amount, all of Home Shopping's outstanding 5.875% Convertible Subordinated Debentures (the "Home Shopping Debentures"). The Home Shopping Debentures were all converted by the holders into 7,499,022 shares of USAi Common Stock on or prior to the Redemption Date. In connection with their preemptive mandatory and optional rights with respect to issuances of shares by the Company, Universal exercised its right in connection with the redemption of the Home Shopping Debentures which resulted in the issuance of 9,978,830 USANi LLC shares, generating an increase in minority interest in USANi LLC of \$199.6 million. This amount reduced the Company's deferred purchase price liability by that amount. Liberty exercised its optional preemptive rights (related to the redemption of the Home Shopping Debentures and the Universal preemptive elections) in exchange for 4,697,327 shares of USAi Common Stock, generating proceeds of \$93.9 million, which was used to pay down bank debt.

On February 20, 1998, the Company's Board of Directors approved the declaration of a dividend to its stockholders in the form of a distribution of one share of Common Stock for each share of common stock outstanding to holders of record as of the close of business on March 12, 1998. The payment date for the dividend was March 26, 1998. The two-for-one stock split also included an identical stock dividend with respect to the Company's Class B Common Stock, paid in the form of one share of Class B Common Stock for each share of Class B Common Stock outstanding as of the close of business on March 12, 1998.

On July 30, 1998, the Company announced that its Board of Directors has authorized a stock repurchase program of up to 10 million shares of the Company's outstanding common stock over the next 12 months, 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 the Company's overall capital structure. The Company has not yet determined the circumstances under which, or the prices at which, shares would be repurchased, or whether such purchases would be made opportunistically or on a regular basis. Funds for these purchases will come from cash on hand or borrowings under the revolving credit facility.

On September 28, 1998, pursuant to an Amended and Restated Agreement and Plan of Reorganization among CitySearch, Inc. ("CitySearch"), the Company, Ticketmaster and certain of its subsidiaries, the Company merged the online ticketing operations of Ticketmaster ("Ticketmaster Online") into a subsidiary of CitySearch, a publisher of local city guides on the Web (the "CitySearch Merger"), to create Ticketmaster Online-CitySearch, Inc. ("TMCS"). The Company had acquired Ticketmaster Online as part of the Ticketmaster Transaction and has preliminarily allocated to Ticketmaster Online a total of \$154.8 million of the goodwill resulting from the Company's acquisition of Ticketmaster. The CitySearch Merger was accounted for using the "reverse purchase" method of accounting, pursuant to which Ticketmaster Online was treated as the acquiring entity for accounting purposes, and the portion of the assets and liabilities of CitySearch acquired were recorded at their respective fair values under the purchase method of accounting.

Prior to the CitySearch Merger, the Company owned approximately 11.8% of CitySearch, which it had purchased for total consideration of \$23.0 million. Pursuant to the CitySearch Merger, the Company acquired 50.7% of CitySearch in exchange for an effective 35.2% interest in Ticketmaster Online. The total purchase price

for the acquisition of the additional CitySearch interest was approximately \$120.9 million, substantially all of which was allocated to goodwill which will be amortized over three years.

In connection with the CitySearch Merger, on October 2, 1998, the Company commenced a Tender Offer to acquire from other TMCS stockholders up to 2,924,339 shares of TMCS common stock. The Company purchased 1,997,502 TMCS shares pursuant to the Tender Offer, which was completed on November 3, 1998, representing an additional 3.1% interest in CitySearch, for total consideration of \$17.3 million. Following the completion of the Tender Offer, the Company beneficially owns approximately 67.9% of TMCS outstanding shares. The CitySearch Merger and Tender Offer are referred to as the "CitySearch Transaction."

In connection with the CitySearch Transaction, the Company recorded a deferred gain of \$65.8 million by exchanging a 35.2% interest in Ticketmaster Online with a basis of \$55.1 million for a 50.7% interest in CitySearch, which had a fair value of \$120.9 million. The gain was deferred because the stockholders of CitySearch have various put options on their TMCS stock to USAi, which options terminate upon the completion of a qualified initial public offering, as defined. This gain will be recognized at the time of the completion of the TMCS initial public offering.

CitySearch has experienced significant losses during its startup phase and the Company expects to continue to incur losses for the foreseeable future as it rolls out its product into new markets. As of September 30, 1998, TMCS has \$57 million in cash which it believes is sufficient to cover future losses. In addition, TMCS currently expects to issue shares in an initial public offering which is expected to generate proceeds sufficient to repay a \$50 million loan to the Company and to fund its operations.

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

During the nine months ended September 30, 1998, the Company did not pay any cash dividends, and none are permitted under the New Facility.

OTHER MATTERS

The Company is currently working to resolve the potential impact of the year 2000 on the processing of date-sensitive information by the Company's computerized information systems. The year 2000 problem is the result of computer programs being written using two digits (rather than four) to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000 which could result in miscalculation or system failures. Various systems could be affected ranging from complex information technology ("IT") computer systems to non-information technology ("non-IT") devices such as an individual machine's programmable logic controller.

The Company is currently conducting a detailed assessment of all of its IT and non-IT hardware and software to assess the scope of its year 2000 issue. The Company has potential exposure in technological operations within the sole control of the Company and in technological operations which are dependent in some way on one or more third parties. The Company believes that it has preliminarily identified all significant technological areas within its control. The Company has initiated communications with significant vendors and customers to confirm their plans to become Year 2000 compliant and is assessing any possible risk to or effects on the Company's operations. The Company believes that, with respect to technological operations which are dependent on third parties, the significant areas of potential risk are the ability of cable operators to receive the signal transmission of USA Network, The Sci Fi Channel and the HSN Services, and the ability of banks and credit card processors to process credit card transactions. The Company expects its Year 2000 assessment, remediation, implementation and testing to be completed by the second quarter of 1999 with the exception of certain of its systems at Ticketmaster which are scheduled to be completed by October 1999.

Because the assessment is still in progress, it is not possible at this time to predict with any reasonable certainty the total cost to remediate all Year 2000 issues. However, the Company believes that the total costs associated with the Year 2000 issue will not exceed \$10 million (exclusive of capital expenditures that are currently planned to replace existing hardware and software systems as part of the Company's ongoing efforts to upgrade its infrastructure and systems). The figure will be revised as a result of further assessment.

Accordingly, based on existing information, the Company believes that the costs of addressing potential problems will not have a material adverse effect on the Company's financial position, results of operations or cash flows in future periods. However, if the Company, its customers or vendors were unable to resolve such issues in a timely manner, it could result in a material adverse effect on the Company's financial position, results of operations or cash flows. The Company plans to devote the necessary resources to resolve all significant year 2000 issues in a timely manner.

The Company is currently focusing its efforts on identification and remediation of its Year 2000 exposures and has not yet developed contingency plans in the event it does not successfully complete all phases of its Year 2000 program. The Company intends to examine its status in the first quarter of 1999, and periodically thereafter, to determine whether such plans are necessary.

SEASONALITY

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the quarter and nine months ended September 30, 1998 for each line of business, and for the Company as a whole, are not necessarily indicative of results for the full year.

Networks and television production revenues are influenced by advertiser demand and the seasonal nature of programming, and generally peak in the spring and fall.

The Company 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.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the Ticketmaster 1994 consolidated consumer class action lawsuit, previously reported in Ticketmaster's Annual Report on Form 10-K for the fiscal year ended January 31, 1998 and in the Company's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 1998 and June 30, 1998, discovery on the plaintiff's claim for equitable relief is ongoing in the United States District Court in the Eastern District of Missouri and a trial date of July 17, 2000 has been set. On July 9, 1998, the plaintiffs filed a petition for a writ of certiorari in the United States Supreme Court seeking review of the decision dismissing their claims. On October 5, 1998, the Supreme Court invited the Solicitor General of the United States to file a brief expressing the views of the United States in this case.

In the MovieFone litigation, previously reported in Ticketmaster's Annual Report on Form 10-K for the fiscal year ended January 31, 1998 and Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 1998 and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, in May 1998, the claimant in the previously disclosed arbitration proceeding against Pacer Cats Corporation, a wholly owned subsidiary of Wembley plc ("Pacer Cats"), filed a petition in New York state court to hold an entity affiliated with Ticketmaster in contempt of the injunction provision of the arbitration award on the grounds that such entity is a successor or assign of, or otherwise acted in concert with, Pacer Cats. The motion is pending. Certain of the MovieFone Entities have also filed an action against Ticketmaster in the United States District Court for the Southern District of New York, MovieFone, Inc. v. Ticketmaster Corporation, 95 Civ. 1861, alleging claims under the antitrust laws and RICO as well as tort law, based on allegations that are substantially similar to those made in the MovieFone arbitration proceeding. The Southern District action seeks monetary and injunctive relief. Ticketmaster has filed a motion to dismiss this action, which is pending.

In the Ticketmaster Shareholder Litigation, previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, the Cook County Circuit Court entered an order dismissing the Illinois case with prejudice. Defendants intend to seek dismissal of the California cases based on the decision of the Circuit Court in Illinois.

In the Jovon litigation, previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and the Company's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 1998 and June 30, 1998, the Federal Communications Commission ("FCC") released a Memorandum Opinion and Order ("Order") addressing Jovon Broadcasting Corporation's petition for reconsideration of its 1996 ruling regarding USA Capital Corporation's option to acquire a 45 percent interest in Jovon. In the Order, the FCC affirmed its earlier holding that the option does not violate the cross-interest policy and may be exercised up to a one-third equity interest in Jovon. The FCC left the validity of the option agreement to be determined by the state courts. On October 13, 1998, the Company filed a Request for Clarification, seeking to confirm that it may use a trust mechanism in order to exercise the option. Jovon has filed a response to the Request for Clarification. On January 9, 1998, the Circuit Court of Pinellas County, Florida denied Jovon's motion to dismiss litigation brought by certain entities controlled by the Company against Jovon. However, the court stayed the action for a period of six months. A status conference is expected to be held before the end of 1998, at which time the court will decide whether an extension of the stay is warranted.

The Company is engaged in various other lawsuits either as plaintiff or defendant. In the opinion of management, the ultimate outcome of these various lawsuits should not have a material adverse impact on the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

| EXHIBIT NUMBER | | DESCRIPTION |
|-------------------|----|---|
| - - - - - | | |
| 10** | -- | Amended and Restated Agreement and Plan of Reorganization, among CitySearch, Inc., Tiberius, Inc., USA Networks, Inc., Ticketmaster Group, Inc., Ticketmaster Corporation and Ticketmaster Multimedia Holdings, Inc., dated August 12, 1998 |
| 11 | -- | Statement Re: Computation of Per Share Earnings |
| 27.1 | -- | Financial Data Schedule (for SEC use only) |
| 27.2 | -- | Financial Data Schedule (for SEC use only) |
| 27.3 | -- | Restated Financial Data Schedule (for SEC use only) |
| 27.4 | -- | Restated Financial Data Schedule (for SEC use only) |

- - - - -

* Reflects management contracts and compensatory plans

** Filed herewith

(b) Reports on Form 8-K

None

SIGNATURES

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

USA NETWORKS, INC.

(Registrant)

Dated November 13, 1998 /s/ BARRY DILLER

Barry Diller
Chairman of the Board and
Chief Executive Officer

Dated November 13, 1998 /s/ VICTOR A. KAUFMAN

Victor A. Kaufman
Office of the Chairman,
Chief Financial Officer
(Principal Financial Officer)

Dated November 13, 1998 /s/ MICHAEL P. DURNEY

Michael P. Durney
Vice President, Controller
(Chief Accounting Officer)

INDEX TO EXHIBITS

| EXHIBIT NUMBER | | DESCRIPTION | PAGE |
|-------------------|----|---|-----------|
| - - - - - | | - - - - - | - - - - - |
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| 27.3 | -- | Restated Financial Data Schedule (for SEC use only) | |
| 27.4 | -- | Restated Financial Data Schedule (for SEC use only) | |

- - - - -

* Reflects management contracts and compensatory plans

** Filed herewith

AMENDED AND RESTATED
AGREEMENT AND PLAN OF REORGANIZATION
BY AND AMONG
CITYSEARCH, INC.,
USA NETWORKS, INC.,
TICKETMASTER GROUP, INC.,
TICKETMASTER CORPORATION,
TICKETMASTER MULTIMEDIA HOLDINGS, INC.
AND
TIBERIUS, INC.

Dated as of August 12, 1998

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| Exhibit A | Form of Convertible Note |
| Exhibit B | TMOL Business Agreement |
| Exhibit C | Form of Voting Agreement |

AMENDED AND RESTATED
AGREEMENT AND PLAN OF REORGANIZATION

This AMENDED AND RESTATED AGREEMENT AND PLAN OF REORGANIZATION is made and entered into as of August 12, 1998 (this "AGREEMENT"), among CitySearch, Inc., a Delaware corporation ("CITY"), Tiberius, Inc., a Delaware corporation and a wholly owned subsidiary of City ("MERGER SUB"), USA Networks, Inc., a Delaware corporation ("USA"), Ticketmaster Group, Inc., an Illinois corporation and a wholly owned subsidiary of USA ("TICKET GROUP"), Ticketmaster Corporation, an Illinois corporation and a wholly owned subsidiary of Ticket Group ("TICKET CORP." and, together with Ticket Group, "TICKET") and Ticketmaster Multimedia Holdings, Inc., a Delaware corporation and a wholly owned subsidiary of Ticket Corp. ("TMOL").

RECITALS

A. City, Merger Sub, USA, Ticket and TMOL are parties to an Agreement and Plan of Reorganization dated as of August 12, 1998 (the "ORIGINAL MERGER AGREEMENT").

B. City, Merger Sub, USA, Ticket and TMOL desire to amend and restate in its entirety the Original Merger Agreement, in the manner set forth herein, as of the date of the Original Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the respective representations, warranties, covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

THE MERGER

1.1 The Merger. At the Effective Time (as defined in Section 1.2) and

subject to and upon the terms and conditions of this Agreement and the applicable provisions of the Delaware General Corporation Law ("DELAWARE LAW"), Merger Sub shall be merged with and into TMOL (the "MERGER"), the separate corporate existence of Merger Sub shall cease and TMOL shall continue as the surviving corporation. TMOL as the surviving corporation after the Merger is hereinafter sometimes referred to as the "SURVIVING CORPORATION." City, following the Effective Time, is sometimes referred to as the "COMBINED COMPANY."

1.2 Effective Time; Closing. Subject to the provisions of this Agreement,

the parties hereto shall cause the Merger to be consummated by filing a Certificate of Merger with the Secretary of State of the State of Delaware in accordance with the relevant provisions of Delaware Law (the "CERTIFICATE OF MERGER") (the time of the effectiveness of the Certificate of Merger (or such later time as may be agreed in writing by City and USA and specified in the Certificate of Merger) being the "EFFECTIVE TIME") on the Closing Date (as defined below). The closing of the Merger (the "CLOSING") shall take place at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, at a time and date

to be specified by the parties, which shall be no later than the second business day after the satisfaction or waiver of the conditions set forth in Article VI, or at such other time, date and location as the parties hereto mutually agree in writing (the "CLOSING DATE").

1.3 Effect of the Merger. At the Effective Time the effect of the Merger

shall be as provided in this Agreement and the applicable provisions of Delaware Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of TMOL and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of TMOL and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

1.4 Certificate of Incorporation; Bylaws. At the Effective Time, the

Certificate of Incorporation of TMOL as in effect immediately prior to the Effective Time (shall be the Certificate of Incorporation of the Surviving Corporation and the Bylaws of TMOL as in effect immediately prior to the Effective Time shall be the Bylaws of the Surviving Corporation.

1.5 Directors and Officers. The directors of TMOL immediately prior to

the Effective Time shall continue as directors of the Surviving Corporation. The initial officers of the Surviving Corporation shall be the officers of TMOL immediately prior to the Effective Time.

1.6 Effect on Capital Stock. At the Effective Time, by virtue of the

Merger and without any action on the part of Merger Sub, TMOL or the holders of any of the following securities:

(a) Conversion of TMOL Common Stock. Each share of common stock, no

par value, of TMOL ("TMOL COMMON STOCK") issued and outstanding immediately prior to the Effective Time, other than any shares of TMOL Common Stock to be canceled pursuant to Section 1.6(b), shall be converted (subject to Sections 1.6(d) and (e)) into 37,238 (the "EXCHANGE RATIO") validly issued, fully paid and nonassessable shares of Common Stock, \$0.01 par value, of City ("CITY COMMON STOCK"). All such shares of TMOL Common Stock shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each certificate previously representing any such shares shall thereafter represent the shares of City Common Stock into which such TMOL Common Stock has been converted. Certificates previously representing shares of TMOL Common Stock shall be exchanged for certificates representing whole shares of City Common Stock issued in consideration therefor upon the surrender of such certificates in accordance with Section 1.7 (or in the case of a lost, stolen or destroyed certificate, upon delivery of an affidavit (and bond, if required) in the manner provided in Section 1.9).

(b) Cancellation of Stock. Each share of TMOL Common Stock held by

TMOL immediately prior to the Effective Time shall be canceled and extinguished without any conversion thereof.

(c) Capital Stock of Merger Sub. Each share of common stock, par

value \$0.01 per share (the "MERGER SUB COMMON STOCK"), of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into one validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation. Each certificate evidencing ownership of shares of Merger

Sub Common Stock shall evidence ownership of such shares of capital stock of the Surviving Corporation.

(d) Exchange Ratio. The Exchange Ratio shall be adjusted to reflect

appropriately the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into City Common Stock or TMOL Common Stock), reorganizations, recapitalization, reclassification or other like change with respect to City Common Stock or TMOL Common Stock occurring or having a record date on or after the date hereof and prior to the Effective Time.

(e) Fractional Shares. No fractional share of City Common Stock shall

be issued in the Merger. In lieu thereof, any fractional share shall be rounded up or down to the nearest whole share of City Common Stock.

(f) Dissenting Shares. Ticket hereby waives all dissenters rights or

appraisal rights to which it may be entitled by virtue of the Merger.

1.7 Surrender of Certificates.

(a) Exchange Agent. City shall select a bank, trust company or other

entity reasonably acceptable to USA to act as the exchange agent (the "EXCHANGE AGENT") in the Merger.

(b) City to Provide Stock. Promptly after the Effective Time, City

shall make available to the Exchange Agent for exchange in accordance with this Article I, the shares of City Common Stock issuable pursuant to Section 1.6 in exchange for outstanding shares of TMOL Common Stock.

(c) Exchange Procedures. As soon as practicable after the Effective

Time, and in no event later than five (5) business days thereafter, City shall cause the Exchange Agent to mail to each holder of record (as of the Effective Time) of a certificate or certificates which immediately prior to the Effective Time represented outstanding shares of TMOL Common Stock (the "CERTIFICATES") whose shares were converted into shares of City Common Stock pursuant to Section 1.6, (i) a letter of transmittal in customary form (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall contain such other provisions as City may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing shares of City Common Stock. Upon surrender of Certificates for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by City, together with such letter of transmittal and form of election duly completed and validly executed in accordance with the instructions thereto, the holders of such Certificates shall be entitled to receive in exchange therefor certificates representing the number of whole shares of City Common Stock into which their shares of TMOL

Common Stock were converted at the Effective Time, and the Certificates so surrendered shall forthwith be canceled. Until so surrendered, outstanding Certificates will be deemed from and after the Effective Time, for all corporate purposes to evidence only the ownership of the number of full shares of City Common Stock into which such shares of TMOL Common Stock shall have been so converted. Notwithstanding the foregoing, in the event that Ticket is the sole stockholder of TMOL and appears at the Closing with all Certificates representing formerly outstanding shares of TMOL capital stock, duly endorsed for transfer, City shall effect the exchange of City Common Stock for such Certificates at the Closing.

(d) Distributions With Respect to Unexchanged Shares. No dividends or

other distributions declared or made after the date of this Agreement with respect to City Common Stock with a record date after the Effective Time will be paid to the holders of any unsurrendered Certificates with respect to the shares of City Common Stock represented thereby until the holders of record of such Certificates shall surrender such Certificates. Subject to applicable law, following surrender of any such Certificates, the Exchange Agent shall deliver to the record holders thereof, without interest, certificates representing whole shares of City Common Stock issued in exchange therefor and the amount of any such dividends or other distributions with a record date after the Effective Time payable with respect to such whole shares of City Common Stock.

(e) Transfers of Ownership. If certificates representing shares of

City Common Stock are to be issued in a name other than that in which the Certificates surrendered in exchange therefor are registered, it will be a condition of the issuance thereof that the Certificates so surrendered will be properly endorsed and otherwise in proper form for transfer and that the persons requesting such exchange will have paid to City or any agent designated by it any transfer or other taxes required by reason of the issuance of certificates representing shares of City Common Stock in any name other than that of the registered holder of the Certificates surrendered, or established to the reasonable satisfaction of City or any agent designated by it that such tax has been paid or is not payable.

(f) No Liability. Notwithstanding anything to the contrary in this

Section 1.7, neither the Exchange Agent, City, the Surviving Corporation nor any party hereto shall be liable to a holder of shares of City Common Stock or TMOL Common Stock for any amount properly paid to a public official pursuant to any applicable abandoned property, escheat or similar law.

1.8 No Further Ownership Rights in City Capital Stock. At and after the

Effective Time the holders of Certificates to be exchanged pursuant to this Agreement shall cease to have any rights as stockholders of TMOL except for the right to surrender such holder's Certificates in exchange for shares of City Common Stock, and after the Effective Time there shall be no transfers on the stock transfer books of the Surviving Corporation of the shares of TMOL Common Stock which were outstanding immediately prior to the Effective Time. Any Certificates formerly representing shares of TMOL Common Stock presented to the Surviving Corporation or Exchange Agent shall be canceled and exchanged for shares of City Common Stock, as provided in this Article I.

1.9 Lost, Stolen or Destroyed Certificates. In the event any Certificates

shall have been lost, stolen or destroyed, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed Certificates, upon the making of an affidavit of that fact by the holder thereof, certificates representing the shares of City Common Stock into which the shares of TMOL Common Stock represented by such Certificates were converted pursuant to Section 1.6, and any dividends or distributions payable pursuant to Section 1.7(d); provided,

however, that City may, in its discretion and as a condition precedent to the

issuance of such certificates representing shares of City Common Stock, cash and other distributions, require the owner of such lost, stolen or destroyed Certificates to deliver a bond in such sum as it may reasonably direct as indemnity against any claim that may be made against City, the Surviving Corporation or the Exchange Agent with respect to the Certificates alleged to have been lost, stolen or destroyed.

1.10 Tax Consequences. It is intended by the parties hereto that the

Merger shall constitute a reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the "CODE"), and each of the parties hereto will use its commercially reasonable efforts to cause the Merger to be treated as such a reorganization. The parties hereto adopt this Agreement as a "plan of reorganization" within the meaning of Sections 1.368-2(g) and 1.368-3(a) of the United States Income Tax Regulations.

ARTICLE II THE OFFER

2.1 Commencement of the Offer. USA shall, as soon as practicable after

the consummation of the Merger, commence, subject to Section 2.5, an offer (the "OFFER") to purchase from each holder of City capital stock as of the date hereof, any transferee of such shares, and any future holder of City capital stock who acquired such stock upon exercise of warrants outstanding on the date hereof or conversion of City Preferred Stock outstanding on the date hereof or exercise of employee or consultant incentive stock options issued in the ordinary course of business at any time (excluding, in any event, USA, any successor holder thereto and any affiliates of USA or any successor holder thereto) (each, a "CITY HOLDER") up to 20% of each City Holder's shares of City Common Stock (including shares of City Common Stock issuable upon conversion of Preferred Stock or upon exercise of options or warrants) (the "20% LIMITATION"). The purchase price of the Offer (the "OFFER EXCHANGE RATIO") shall be, for each share of City Common Stock, \$8.67 in cash. The Offer Exchange Ratio and the USA Cap (as defined in Section 2.5) shall be adjusted to reflect appropriately the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into City Common Stock or any Series of Preferred Stock of City), reorganizations (other than the Merger), recapitalization, reclassification or other like change with respect to City Common Stock or any Series of Preferred Stock of City occurring or having a record date on or after the date hereof and prior to the consummation of the Offer (other than changes contemplated by this Agreement).

2.2 Expiration of the Offer. The Offer shall remain open until 5:00

p.m., New York City time, on the date twenty business days following the commencement of the Offer (the "EXPIRATION DATE"). USA may not amend or change any terms of the Offer without the written consent of (a) City at any time prior to the Effective Time or (b) a majority in interest of the City Holders at any time following the Effective Time.

2.3 Offer Mechanics. The Offer shall be made by means of an offer to

purchase (the "OFFER TO PURCHASE") containing the terms set forth in this Agreement. Concurrently with the commencement of the Offer, USA shall disseminate to all City Holders the Offer to Purchase and a letter of transmittal

in customary form (the "OFFER DOCUMENTS") to each of which City shall not have reasonably objected. City and its counsel shall be given a reasonable opportunity to review and comment on the Offer Documents prior to the dissemination thereof to City Holders. Upon the terms of the Offer, USA will purchase by accepting for payment and will pay for shares of City Common Stock validly tendered, as promptly as practicable after the Expiration Date.

2.4 List of City Holders. City shall furnish USA with a list containing

the names and addresses of all City Holders and such information about City as USA may reasonably request to enable it to comply with applicable law.

2.5 Proration. The aggregate number of shares of City Common Stock to be

purchased from City Holders pursuant to the Offer (the "USA CAP") shall not exceed 2,924,339 shares. In the event that the aggregate number of shares of City Common Stock properly tendered exceeds the USA Cap, USA will accept and pay for (i) all City Common Stock validly tendered up to 10% of the aggregate number of City Common Stock owned by each tendering City Holder (including City Common Stock issued upon conversion of the Preferred Stock or upon exercise of options or warrants) (such amount for each stockholder, the "MINIMUM AMOUNT", and in the aggregate for all stockholders, the "AGGREGATE MINIMUM AMOUNT") and (ii) with respect to City Common Stock tendered in excess of 10% of the City Common Stock owned by any tendering stockholder (including City Common Stock issued upon conversion of the Preferred Stock or upon exercise of options or warrants) (the "10% THRESHOLD"), a number of shares of City Common Stock equal to (x) the City Common Stock validly tendered in excess of the 10% Threshold and not in excess of the 20% Limitation for such stockholder (the "SUPPLEMENTAL AMOUNT", and together will all such City Common Stock tendered by all current City Holders, the "AGGREGATE SUPPLEMENTAL AMOUNT") multiplied by (y) the Proration Factor (as defined below), with any fraction rounded down to the next whole share, in any case upon the terms and subject to the conditions set forth herein. The "PRORATION FACTOR" shall be a fraction, the numerator of which is (x) the USAi Cap minus (y) the Aggregate Minimum Amount and the denominator of which is the Aggregate Supplemental Amount. City and USA shall take all steps necessary to ensure that each City Holder tendering shares of City Common Stock into the Offer which are not purchased pursuant to the Offer shall receive a certificate for such unpurchased shares as promptly as practicable.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF
USA, TICKET AND TMOL

USA, Ticket and TMOL jointly and severally represent and warrant to City and Merger Sub, subject to the exceptions disclosed in writing in the disclosure letter supplied by USA to City dated as of the date hereof (the "USA SCHEDULES"), as set forth below.

3.1 Organization, Standing and Corporate Power. Each of USA, Ticket and

TMOL and each Distributor (as defined in Section 3.7(b) below) is a corporation or other entity duly organized or formed, as the case may be, validly existing and in good standing under the laws of the jurisdiction of its

organization or formation, as the case may be, and has all requisite corporate or other entity power and authority to carry on its business as now being conducted. Each of USA, Ticket and TMOL and each Distributor is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed or be in good standing individually or in the aggregate could not reasonably be expected to have a USA Material Effect (as defined in Section 8.3). TMOL has delivered to City complete and correct copies of its Certificate of Incorporation and Bylaws as amended to the date hereof. TMOL has no subsidiaries.

3.2 Capital Structure. The authorized capital stock of TMOL consists of

1,000 shares of Common Stock, no par value. As of the date hereof, 1,000 such shares are issued and outstanding. Ticket Corp. is the sole stockholder of TMOL. Each of USA and Ticket Corp. is an accredited investor as defined in Regulation D promulgated under the Securities Act of 1933, as amended (the "SECURITIES ACT"). USA is acquiring the Convertible Promissory Note in the form attached hereto as Exhibit A (the "CONVERTIBLE NOTE") and Ticket Corp. is acquiring the

shares of City Common Stock issued in the Merger, in each case, solely for its own account for investment and not with a view to or for sale in connection with any distribution of such securities, any securities issuable upon conversion thereof or any portion thereof, and not with any present intention of selling, offering to sell or otherwise disposing of or distributing such securities, any securities issuable upon conversion thereof or any portion thereof. Except as set forth above, on the date hereof, no shares of capital stock or other voting securities of TMOL were issued, reserved for issuance or outstanding. All outstanding shares of capital stock of TMOL are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights. There are no bonds, debentures, notes or other indebtedness of TMOL having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of TMOL may vote. Except as set forth above, there are no securities, options, warrants, calls, rights, contracts, commitments, agreements, arrangements, obligations or undertakings of any kind to which TMOL or USA or any of USA's subsidiaries is a party, or by which TMOL or USA or any of USA's subsidiaries is bound, obligating TMOL or USA or any of USA's subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of TMOL or securities convertible or exchangeable therefor or obligating TMOL or USA or any of USA's subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, contract, commitment, agreement, arrangement, obligation or undertaking. There are not any outstanding contractual obligations requiring TMOL to repurchase, redeem or otherwise acquire any shares of capital stock of TMOL. TMOL is not a party to or bound by any agreement requiring it to register shares of its capital stock under the Securities Act.

3.3 Authority/Noncontravention. Each of (to the extent it is a party) USA,

Ticket and TMOL has the requisite corporate power and authority to execute and deliver this Agreement and the License and Services Agreement attached hereto as Exhibit C (the "TMOL BUSINESS AGREEMENT") and to consummate the transactions

contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the TMOL Business Agreement by each of (to the extent it is a party) USA, Ticket and TMOL and the consummation by (to the extent it is a party) USA, Ticket and TMOL of the transactions contemplated hereby and thereby have been duly authorized by all necessary

corporate action on the part of (to the extent it is a party) USA, Ticket and TMOL and no other corporate proceedings on the part of (to the extent it is a party) USA, Ticket or TMOL are necessary to authorize this Agreement and the TMOL Business Agreement or to consummate the transactions contemplated hereby and thereby. This Agreement and the TMOL Business Agreement have been duly executed and delivered by (to the extent it is a party) USA, Ticket and TMOL and constitute valid and binding obligations of (to the extent it is a party) USA, Ticket and TMOL, enforceable against (to the extent it is a party) USA, Ticket and TMOL in accordance with their terms. The execution and delivery of this Agreement and the TMOL Business Agreement do not, and the consummation of the transactions contemplated by this Agreement and the TMOL Business Agreement and compliance with the provisions of this Agreement and the TMOL Business Agreement will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit or require any consent, approval or authorization under, or result in the creation of any pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever (collectively, "LIENS") in or upon any of the properties or assets of TMOL (or USA or Ticket to the extent related to the Put, the Offer, the TMOL Business Agreement or the Online Revenue Rights), under, any provision of (a) the Certificate of Incorporation or Bylaws of USA, Ticket or TMOL or the certificates of incorporation or bylaws (or similar organizational documents) of any of USA's subsidiaries, (b) any loan or credit agreement, bond, debenture, note, mortgage, indenture, lease or other material contract, commitment, agreement, arrangement, obligation, undertaking, instrument, permit, concession, franchise or license applicable to TMOL (or USA or Ticket to the extent related to the Put, the Offer, the TMOL Business Agreement or the Online Revenue Rights) or their respective properties or assets or (c) any statute, law, ordinance, rule or regulation or judgment, order or decree, in each case, applicable to USA, TMOL or any of USA's subsidiaries (or USA or Ticket to the extent related to the Put, the Offer, the TMOL Business Agreement or the Online Revenue Rights) or their respective properties or assets, other than, in the case of clauses (b) and (c), any such conflicts, violations, defaults, rights or Liens or other occurrences that individually or on the aggregate could not reasonably be expected to have a USA Material Effect. No consent, approval, order or authorization of, or registration, declaration or filing with, any Federal, state or local, domestic or foreign, government or any court, administrative agency or commission or other governmental authority or agency, domestic or foreign (a "GOVERNMENTAL ENTITY"), is required by or with respect to USA, Ticket or TMOL or any of USA's subsidiaries in connection with the execution and delivery of this Agreement or the TMOL Business Agreement by USA, Ticket and TMOL or the consummation by USA, Ticket and TMOL of the Merger, the Put, the Offer or the other transactions contemplated by this Agreement and the TMOL Business Agreement, except for (a) the filing of the Certificate of Merger with the Delaware Secretary of State, (b) such consents, approvals, orders, authorizations, registrations, declarations or filings as may be required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR ACT"), (c) compliance with, and filings under, any applicable requirements of the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act") in connection with the Put, and (d) such other consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to be obtained or to be made, individually or in the aggregate, could not reasonably be expected to (i) have a USA Material Effect or (ii) prevent or materially delay any of the transactions contemplated by this Agreement.

3.4 Financial Statements; No Undisclosed Liabilities.

(a) The unaudited balance sheet of TMOL (the "TMOL BALANCE SHEET") as of June 30, 1998 (the "TMOL BALANCE SHEET DATE") and the related unaudited statements of operations for the period from February 1, 1998 through June 30, 1998 are attached to Section 3.4(a) of the USA Schedules and have been prepared in accordance with the books and records of TMOL and are complete and correct in all material respects, have each been prepared in accordance with generally accepted accounting principles ("GAAP") (with the exception that no footnotes or tax provisions and tax related liabilities have been provided) in conformity with the practices consistently applied by TMOL throughout the periods involved and present fairly the financial position and results of operations of TMOL as of the dates and for the periods specified.

(b) The unaudited pro forma statement of operations for the period from February 1, 1998 through June 30, 1998 (the "TMOL PRO FORMA FINANCIAL STATEMENTS") are attached to Section 3.4(b) of the USA Schedules and have been prepared in good faith in accordance with the books and records of TMOL with items of revenue from Distributors and items of expense presented on a pro forma basis as if the TMOL Business Agreement was in effect for the period specified.

(c) As of the TMOL Balance Sheet Date, TMOL did not have any material indebtedness, obligations or liabilities of any kind (whether accrued, absolute, contingent or otherwise, and whether due or to become due or asserted or unasserted), which were not fully reflected in, reserved against or otherwise described in the TMOL Balance Sheet. Since the TMOL Balance Sheet Date, TMOL has not incurred any material indebtedness, obligations or liabilities of any kind (whether accrued, absolute, contingent or otherwise, and whether due or to become due or asserted or unasserted), other than those incurred in the ordinary course of business consistent with past practice.

(c) USA has filed all forms, reports and documents required to be filed by USA with the SEC since December 31, 1997. All such required forms, reports and documents (including those that USA may file subsequent to the date hereof) are referred to herein as the "USA SEC REPORTS." As of their respective dates, the USA SEC Reports (i) were prepared in accordance with, and in compliance with, in all material respects, the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such USA SEC Reports, and (ii) did not at the time they were filed (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(d) Each of the consolidated financial statements (including, in each case, any related notes thereto) contained in the USA SEC Reports, including any USA SEC Reports filed after the date hereof until the Closing, (x) complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, (y) was prepared in all material respects in accordance with GAAP applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited interim financial statements, as may be permitted by the SEC on Form 10-Q under the Exchange Act) and (z) fairly presented in all material respects the consolidated

financial position of USA and its subsidiaries as at the respective dates thereof and the consolidated results of USA's operations and cash flows for the periods indicated, except that the unaudited interim financial statements may not contain footnotes.

3.5 Absence of Certain Changes or Events. Since the TMOL Balance Sheet

Date and until the date hereof, TMOL has conducted its business only in the ordinary course consistent with past practice, and there has not been (a) except for transactions in the ordinary course of business, consistent with past practice, any material transaction, agreement or arrangement involving both (i) any of USA or any of its affiliates and (ii) TMOL, (b) any declaration, setting aside or payment of any dividend on, or other distribution (whether in cash, stock or property) with respect to TMOL's capital stock, (c) any split, combination, reclassification or repurchase of TMOL's capital stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of TMOL's capital stock, (d) (i) any granting by TMOL to any officer of TMOL of any increase in compensation, except in the ordinary course of business consistent with past practice, (ii) any granting by TMOL to any officer of TMOL of any increase in severance or termination pay, or (iii) any entry by TMOL into (A) any currently effective employment, severance, termination or indemnification agreement, or consulting agreement (other than in the ordinary course of business consistent with past practice), with any current or former officer, director, employee or consultant or (B) any agreement with any current or former officer, director, employee or consultant the benefits of which are contingent, or the terms of which are materially altered, upon the occurrence of a transaction involving TMOL of the nature contemplated by this Agreement, (e) any material damage, destruction or loss to TMOL of any of the Online Revenue Rights, whether or not covered by insurance, (f) any material change in accounting methods, principles or practices by TMOL, except insofar as may have been required by a change in GAAP or (g) any material tax election by TMOL.

3.6 Litigation. There is no suit, claim, action, proceeding or, to the

knowledge of TMOL, Ticket or USA, investigation, pending or, to the knowledge of TMOL, Ticket or USA, threatened, against or affecting TMOL, USA, Ticket or any Distributor, nor is there any judgment, order, decree or injunction of any Governmental Entity or arbitrator outstanding against, or, to the knowledge of TMOL, Ticket or USA, investigation by any Governmental Entity involving, TMOL, Ticket USA, or any Distributor except for such suits, claims, actions, proceedings, investigations, judgments, orders, decrees, or injunctions which, individually and in the aggregate, could not reasonably be expected to (a) have a USA Material Effect or (b) prevent or materially delay any of the transactions contemplated by this Agreement.

3.7 Contracts.

(a) As of the date hereof, TMOL is not a party to, nor are any of its properties or assets bound by, any currently binding (i) contracts, licenses or agreements, with respect to any tangible or intangible property with a value or cost in excess of \$50,000, (ii) any employment or consulting agreement or contract that requires payments in excess of \$50,000 per year (other than offer letters providing only for "at will" employment), (iii) any agreement or plan, any of the benefits of which will be increased, or the vesting of benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the TMOL Business Agreement or the value of any of

the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement or the TMOL Business Agreement, (iv) any agreement of indemnification, agreement providing for reimbursement of payments or providing a right of rescission, hold harmless or guaranty, or any obligation or liability with respect to infringement of the intellectual property rights of another person, in excess of, or entered into in connection with a transaction in excess of, \$50,000, (v) any agreement, contract or commitment containing any covenant limiting the freedom of such party, any of its subsidiaries or the Surviving Corporation to engage in any line of business or to compete with any person, (vi) any agreement, contract or commitment relating to capital expenditures and involving future payments by TMOL in excess of \$50,000 in one or in a series of transactions, (vii) any agreement, contract or commitment relating to the disposition or acquisition of assets or any interest in any business enterprise outside the ordinary course of business, (viii) any mortgages, indentures, loans or credit agreements, security agreements or other agreements or instruments relating to the borrowing of money or extension of credit in excess of \$50,000 in the aggregate, (ix) any purchase order or contract for the purchase of materials involving in excess of \$50,000, (x) except as contemplated by this Agreement or the TMOL Business Agreement, any material agreement (or material arrangement to be in place following the Effective Time) involving both (a) any of USA or any of its affiliates and (b) TMOL, (xi) any contracts that relate to corporate governance, the voting or transfer of any equity securities of such party, the registration of any securities of such party under the Securities Act or that grant any redemption or preemptive rights or (xii) any other agreement, contract or commitment that involves \$50,000 or more or is not cancelable without penalty within thirty (30) days (collectively, the "TMOL CONTRACTS"). TMOL has delivered or otherwise made available to City true, correct and complete copies of the TMOL Contracts, together with all amendments, modifications and supplements thereto and all side letters to which TMOL is a party affecting the obligations of any party thereunder. TMOL is not, and to the knowledge of TMOL or USA neither is any other party, in violation of or in default (with or without notice or lapse of time, or both) under any material lease, permit, concession, franchise, license or any other material contract, commitment, agreement, arrangement, obligation or understanding to which TMOL is a party or affecting the Online Revenue Rights or by which TMOL or any of its properties or assets is bound, except for any such violations or defaults that could not reasonably be expected to, individually or in the aggregate, (i) prevent or materially delay consummation of any of the transactions contemplated hereby or (ii) have a USA Material Effect.

(b) For purposes of this Agreement, a "VENUE AGREEMENT" means a contract, agreement or arrangement to which any of USA, TMOL or any affiliate of either of them is a party (each, a "DISTRIBUTOR"), relating to any rights any such Distributor has to sell, enable the sale of, or distribute tickets for live events or performances and impose any fees or charges (collectively "FEES," which shall include, without limitation, convenience charges, handling charges, inside charges and credit card purchase charges) in connection therewith to the counterparty and/or ticket purchaser ("TICKET DISTRIBUTION"). Under each Venue Agreement, the Distributor that is a party thereto has all rights necessary to permit and enable it to engage in, and derive revenue from, Ticket Distribution on-line over the Internet for the events and performances that are the subject of such Venue Agreement (individually and collectively, the "ONLINE REVENUE RIGHTS"). The terms of the Online Revenue Rights in each Venue Agreement (including without limitation the amount of all Fees) are no less favorable to the Distributor than the terms of the Venue Agreements pertaining to Ticket Distribution conducted by telephone. Without limiting the foregoing, under each Venue Agreement, the Distributor that is a party

thereto has the right to apply the customer convenience charges, the handling charges, any inside charges and any credit card purchase charges for Ticket Distribution online in the amounts no less than the amounts specified in such agreements for Ticket Distribution conducted by telephone. The execution and delivery of this Agreement and the TMOL Business Agreement do not, and the consummation of the transactions contemplated by this Agreement and the TMOL Business Agreement and compliance with the provisions of this Agreement and the TMOL Business Agreement will not conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation, acceleration of any obligation or to loss or impairment of a benefit or require any consent, approval or authorization under, or result in the creation of any Liens upon any of the properties or assets of any Distributor, under any provision of any Venue Agreement, except as could not reasonably be expected to have a USA Material Effect.

The line items entitled "Convenience Charges" and "S&H Revenue-Tickets" included in the TMOL statement of operations that is included in the TMOL Pro Forma Financial Statements are comprised only of revenues recognized by Distributors from Ticket Distribution on-line over the Internet under the Venue Agreements; and if such revenue were to be generated by a Distributor following the Effective time, then, under the TMOL Business Agreement, all such revenue would be treated as revenue of TMOL. The line items entitled "Convenience Charges" and "S&H Revenue-Tickets" included in the statement of operations that is included in the TMOL Financial Statements are comprised of all "Inside Charges", "Royalties", "License Fees" and all other fees and charges, however denominated, received by Distributor in respect of Ticket Distribution online.

With respect to a substantial majority of the Venue Agreements for major clients, there is no third party that has any right to engage in Ticket Distribution by telephone or on-line over the Internet.

Neither USA, Ticket nor any other Distributor has transferred or permitted the transfer of any rights to any person or entity that is not majority owned and controlled by Ticket to engage in, or derive revenue from, Ticket Distribution over the Internet using the "Ticketmaster" name (or any derivation thereof) or Ticketmaster marks, and no existing contract, agreement or arrangement is in, or may in the future take, effect that would permit any person or entity that is not majority owned and controlled by Ticket to use such names or marks for such purposes. Each Distributor is majority owned and controlled by Ticket.

3.8 Compliance With Laws. USA, Ticket, TMOL, their respective subsidiaries

and affiliates, and, to the knowledge of TMOL or USA, all Distributors are in compliance with all statutes, laws, ordinances, rules, regulations, judgments, orders and decrees of any Governmental Entity applicable to their businesses or operations, except for instances of possible noncompliance that individually or in the aggregate could not reasonably be expected to have a USA Material Effect. USA, Ticket, TMOL, their respective subsidiaries and each Distributor have in effect all Federal, state and local, domestic and foreign, governmental consents, approvals, orders, authorizations, certificates, filings, notices, permits, franchises, licenses and rights (collectively "PERMITS") necessary for them to own, lease or operate their properties and assets and to carry on their businesses as now conducted and there has occurred no violation of, or default under, any such Permit, except for the lack of Permits and for violations of, or defaults under, Permits which lack, violation or default individually or in the aggregate could not

reasonably be expected to have a USA Material Effect. As of the date of this Agreement, neither any of the representations or warranties made by USA, Ticket and TMOL in this Agreement nor the USA Schedules, when taken together as a whole, under the circumstances in which they were made, contains any untrue statement of a material fact, or omits to state any material fact necessary in order to make such representations, warranties and statements not misleading.

3.9 Absence of Changes in Benefit Plans; Employment Agreements; Labor

Relations. Since the TMOL Balance Sheet Date and until the date hereof, there

has not been any termination, adoption, amendment or agreement to amend in any material respect by TMOL of any material bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock appreciation, restricted stock, stock option, phantom stock, performance, retirement, vacation, severance, disability, death benefit, hospitalization, medical or other material plan, arrangement or understanding providing benefits to any current or former officer, director or employee of TMOL (collectively, "BENEFIT PLANS"). As of the date hereof there exist no currently binding employment, severance or termination agreements or material consulting agreements between TMOL and any current or former officer of TMOL. There are no collective bargaining or other labor union agreements to which TMOL is a party or by which it is bound. TMOL has not encountered any labor union organizing activity, nor had any actual or threatened employee strikes, work stoppages, slowdowns or lockouts.

3.10 ERISA Compliance.

(a) Section 3.10(a) of the USA Schedules contains a list of all "employee pension benefit plans" (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) (sometimes referred to herein as "TMOL PENSION PLANS"), "employee welfare benefit plans" (as defined in Section 3(1) of ERISA) and all other Benefit Plans maintained or contributed to by TMOL or any person or entity that, together with TMOL, is treated as a single employer under Section 414(b), (c), (m) or (o) of the Code (a "TMOL COMMONLY CONTROLLED ENTITY") for the benefit of any current or former officers, directors or employees of TMOL. TMOL has made available to City true, complete and correct copies of (i) each Benefit Plan (or, in the case of any unwritten Benefit Plans, descriptions thereof), (ii) the most recent annual report on Form 5500 required to be filed with the Internal Revenue Service (the "IRS") with respect to each Benefit Plan (if any such report was required), (iii) the most recent summary plan description and all material modifications thereto for each Benefit Plan for which such summary plan description is required and (iv) each trust agreement and group annuity contract relating to any Benefit Plan. Each Benefit Plan has been administered in accordance with its terms, except where the failure to so administer could not, individually or in the aggregate, reasonably be expected to have a USA Material Effect. TMOL and all the Benefit Plans are all in compliance with applicable provisions of ERISA and the Code, except for instances of possible noncompliance that could not, individually or in the aggregate, reasonably be expected to have a USA Material Effect.

(b) Each of the TMOL Pension Plans has been the subject of a determination letter (or its equivalent) from the IRS to the effect that such TMOL Pension Plan is qualified and exempt from United States Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination letter (or its equivalent) has been revoked nor has any event occurred since the date of its most recent determination letter (or its equivalent) or application therefor that would adversely affect its qualification or materially increase its costs.

(c) Neither TMOL nor any TMOL Commonly Controlled Entity has maintained, contributed to or been obligated to contribute to any Benefit Plan that is subject to Title IV of ERISA.

(d) Except pursuant to Section 5.15(b), no officer or employee of TMOL will be entitled to any additional compensation or benefits or any acceleration of the time of payment or vesting of any compensation or benefits under any Benefit Plan as a result of the transactions contemplated by this Agreement or any benefits under any Benefits Plan the value of which will be calculated on the basis of any of the transactions contemplated by this Agreement.

(e) TMOL: (i) has withheld and reported all amounts required by law or by agreement to be withheld and reported by it with respect to wages, salaries and other payments to any current or former employee, consultant or director of TMOL ("TMOL EMPLOYEES"); (ii) is not liable for any arrears of wages or any taxes or any penalty for failure to comply with any of the foregoing; and (iii) is not liable for any payment to any trust or other fund governed by or maintained by or on behalf of any governmental authority, with respect to unemployment compensation benefits, social security or other benefits or obligations for TMOL Employees (other than routine payments to be made in the normal course of business and consistent with past practice), except, in the case of (i) through (iii) above, for such noncompliance or liability as could not reasonably be expected to have a USA Material Effect. There are no pending, threatened or reasonably anticipated claims or actions against TMOL under any worker's compensation policy or long-term disability policy other than claims or actions for which TMOL is insured or that otherwise could not reasonably be expected to have a USA Material Effect.

3.11 Taxes. All material tax returns, information statements and reports

("RETURNS") required to be filed with respect to TMOL or its assets or operations have been filed, and all such Returns are true and correct in all material respects (except where adequate reserves have been established therefore on the TMOL Balance Sheet). All material taxes that accrue or are payable by TMOL and each of its subsidiaries in respect of taxable periods that end on or before the Closing Date have been (on or before the Closing Date) timely paid or an adequate reserve has been established on the TMOL Balance Sheet. No deficiencies for any Taxes have been proposed, asserted or assessed against TMOL, and no requests for waivers of the time to assess any such Taxes are pending. No audit or other examination of any Return of TMOL is currently in progress, nor has TMOL or Ticket been notified of any request for such an audit or other examination. TMOL has provided or made available for inspection copies of all foreign, federal and state income and state sales and use Returns for all periods since the date of TMOL's incorporation. There are (and as of immediately following the Effective Time there will be) no liens, pledges, charges, claims, security interests or other encumbrances of any sort on the assets of TMOL relating to or attributable to Taxes. As of the Effective Time, there will not be any contract, agreement, plan or arrangement, including but not limited to the provisions of this Agreement, covering any

employee or former employee of TMOL that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to Section 280G or 162 of the Code. TMOL is not a party to a Tax sharing or allocation agreement nor does TMOL owe any amount under any such agreement. TMOL will not be required to be under applicable law, included in any combined, consolidated or unitary Return with USA, Ticket or any affiliate thereof (other than City), for any period ending after the Closing Date, and TMOL has not been included on any combined, consolidated or unitary Tax Returns with any entity other than TMOL. As used in this Agreement, "Taxes" means (i) all Federal, state, local and foreign income, property, sales, excise and other taxes, tariffs or governmental charges of any nature whatsoever, together with all interest, penalties and additions imposed with respect to such amounts; (ii) any liability for the payment of any amounts of the type described in clause (i) as a result of being or ceasing to be a member of an affiliated, consolidated, combined or unitary group for any period (including, without limitation, any liability under Treas. Reg. Section 1502-6 or any comparable provisions of foreign, state or local law); and (iii) any liability for the payment of any amounts of the type described in clause (i) or (ii) as a result of any express or implied obligation to indemnify any other person or as a result of any obligations under any agreements or arrangements with any other person with respect to such amounts and including any liability for Taxes of a predecessor entity.

3.12 No Excess Parachute Payments. No amount that could be received

(whether in cash or property or the vesting of property) as a result of any of the transactions contemplated by this Agreement by any employee, officer or director of TMOL who is a "disqualified individual" (as such term is defined in proposed Treasury Regulation Section 1.280G-1) under any employment, severance or termination agreement, other compensation arrangement or Benefit Plan currently in effect would be an "excess parachute payment" (as such term is defined in Section 280G(b)(1) of the Code). No such person is entitled to receive any additional payment from TMOL, the Surviving Corporation or any other person (a "PARACHUTE GROSS-UP PAYMENT") in the event that the excise tax of Section 4999(a) of the Code is imposed on such person. The Board of Directors of TMOL has not granted to any officer, director or employee of TMOL any right to receive any Parachute Gross-Up Payment.

3.13 Title to Properties.

(a) TMOL has good and marketable title to, valid leasehold interests in, or valid license rights to use, all of its material properties and assets except for such as are no longer used or useful in the conduct of its businesses or as have been disposed of in the ordinary course of business and except for defects in title, easements, restrictive covenants and similar encumbrances that individually or in the aggregate could not reasonably be expected to have a USA Material Effect. All such material assets and properties, other than assets and properties in which TMOL has a leasehold interest, are free and clear of all Liens (other than Liens for current taxes not yet due and payable), except for Liens that individually or in the aggregate could not reasonably be expected to have a USA Material Effect.

(b) TMOL has complied in all material respects with the terms of all material leases to which it is a party and under which it is in occupancy, all such leases are in full force and effect, except for such noncompliance or failure to be in full force and effect as individually or in the aggregate could not reasonably be expected to have a USA Material Effect and have been made available to City.

TMOL enjoy peaceful and undisturbed possession under all such material leases, except for failures to do so that individually or in the aggregate could not reasonably be expected to have a USA Material Effect.

3.14 Intellectual Property.

(a) TMOL owns, or has the right to use, sell or license all material intellectual property necessary or required for the conduct of its business as presently conducted and as presently contemplated (such intellectual property and the rights thereto are collectively referred to as the "TMOL IP RIGHTS").

(b) TMOL has taken all reasonable steps necessary or appropriate (including, entering into appropriate confidentiality, nondisclosure agreements with officers, directors, subcontractors, independent contractors, full-time and part-time employees, licensees and customers) to safeguard and maintain the secrecy and confidentiality of, and the proprietary rights in, the TMOL IP Rights material to its business.

(c) (i) Neither the manufacture, marketing, license, sale or intended use of any product or technology currently licensed or sold by TMOL violates in any material respect any license or agreement between TMOL and any third party or infringes in any material respect any proprietary right of any other party; and (ii) there is no pending or, to the knowledge of TMOL or USA, threatened claim or litigation contesting the validity, ownership or right to use, sell, license or dispose of any TMOL IP Right (other than immaterial claims in foreign countries not in the Territory (as defined in the TMOL Business Agreement)).

3.15 Section 203 of Delaware Law Not Applicable. The Board of

Directors of TMOL has taken all actions within its control so that the restrictions contained in Section 203 of Delaware Law applicable to a "business combination" (as defined in such Section 203) will not apply to the execution, delivery or performance of this Agreement or to the consummation of the Merger or the other transactions contemplated by this Agreement or the Convertible Note, and, to the knowledge of USA, Ticket and TMOL, no other "fair price," moratorium," "control share acquisition," or other anti-takeover statute or similar statute or regulation applies or purports to apply to this Agreement, the Merger, the Convertible Note or the transactions contemplated hereby or thereby.

3.16 Brokers. No broker, investment banker, financial advisor or other

person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of TMOL, Ticket or USA, except for Lazard Freres & Co., LLC, whose fees shall be paid by USA. Except for the foregoing, as of the date hereof, TMOL is not a party to any agreement obligating it to retain any investment banking firm as a financial advisor and to pay such investment banking firm a material fee for advisory services in connection with any financing or acquisition transaction.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF CITY

City and Merger Sub jointly and severally represent and warrant to USA, Ticket and TMOL, subject to the exceptions disclosed in writing in the disclosure letter supplied by City to USA dated as of the date hereof (the "CITY SCHEDULES"), as set forth below.

4.1 Organization, Standing and Corporate Power. City and each of its

subsidiaries (including Merger Sub) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all requisite corporate power and authority to carry on its business as now being conducted. City and each of its subsidiaries (including Merger Sub) is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed or be in good standing individually or in the aggregate could not reasonably be expected to have a City Material Effect. City has delivered to USA complete and correct copies of its Certificate of Incorporation and Bylaws and the certificates of incorporation and bylaws (or similar organizational documents) of each of its subsidiaries, in each case as amended to the date hereof. The shares of capital stock of each City subsidiary owned by City are owned by it free and clear of any Liens (as defined in Section 3.3) of any kind and such shares are fully paid and nonassessable.

4.2 City Capital Structure. The authorized capital stock of City

consists of 75,000,000 shares of Common Stock, \$0.01 par value per share, and 15,485,788 shares of Preferred Stock \$0.01 par value per share, 1,791,173 of which have been designated Series A Preferred Stock, 288,992 of which have been designated Series B Preferred Stock, 3,261,024 of which have been designated Series C Preferred Stock, 4,430,313 of which have been designated Series D Preferred Stock and 5,714,286 of which have been designated Series E Preferred Stock. As of the date hereof, 10,034,775 shares of Common Stock of City are issued and outstanding, 1,791,173 shares of Series A Preferred Stock are issued and outstanding, 288,992 shares of Series B Preferred Stock are issued and outstanding, 3,261,024 shares of Series C Preferred Stock are issued and outstanding, 4,430,313 shares of Series D Preferred Stock are issued and outstanding and 5,714,286 shares of Series E Preferred Stock are issued and outstanding. As of the date hereof, City had reserved an aggregate of 5,500,000 shares of City Common Stock, net of exercises, for issuance to employees, consultants and non-employee directors pursuant to the City 1996 Stock Option Plan, under which options were outstanding for an aggregate of 3,924,322 shares. As of the date hereof, assuming conversion of all City Preferred Stock and exercise of all outstanding options and warrants to acquire City Common Stock, calculated on the treasury method assuming a fair market value of City Common Stock of \$8.67 per share, there are outstanding 27,523,750 shares of City Common Stock. Except as set forth above, on the date hereof, no shares of capital stock or other voting securities of City were issued, reserved for issuance or outstanding. All outstanding shares of capital stock of City are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights. There are no bonds, debentures, notes or other indebtedness of City having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of City may vote. Except as set forth above, there are no securities, options, warrants, calls, rights, contracts, commitments, agreements, arrangements, obligations or undertakings

of any kind to which City or any of its subsidiaries is a party, or by which City or any of its subsidiaries is bound, obligating City or any of its subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of City or any of its subsidiaries or securities convertible or exchangeable thereafter or obligating City or any of its subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, contract, commitment, agreement, arrangement, obligation or undertaking. There are not any outstanding contractual obligations (i) requiring City or any of its subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of City or (ii) requiring City to vote or to dispose of any shares of the capital stock of any of its subsidiaries. Except as set forth in the Sixth Amended and Restated Stockholders' Agreement, dated as of May 20, 1998, among City and certain of its stockholders (the "STOCKHOLDERS' AGREEMENT"), City is not a party to or bound by any agreement requiring it to register shares of its capital stock under the Securities Act. Upon the Closing and assuming that City obtains the requisite stockholder vote as contemplated by Section 5.2 of this Agreement, the Stockholders' Agreement and all rights and obligations (other than Section 6 and Sections 11.2, 11.4, 11.5, 11.6, 11.7, 11.8, 11.9 and 11.11) thereunder will terminate.

4.3 Authority/Noncontravention. Each of City and Merger Sub has the

requisite corporate power and authority to execute and deliver this Agreement and, subject to the approval and adoption of this Agreement and approval of the Merger by City's stockholders, to consummate the transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement by City and Merger Sub and the consummation by City and Merger Sub of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action on the part of City and Merger Sub and no other corporate proceedings on the part of City and Merger Sub are necessary to authorize this Agreement or to consummate the transactions contemplated hereby, subject, in each case, to the approval and adoption of this Agreement and approval of the Merger by City's stockholders. This Agreement has been duly executed and delivered by City and Merger Sub and constitutes a valid and binding obligation of City and Merger Sub, enforceable against City and Merger Sub in accordance with its terms. The execution and delivery of this Agreement do not, and subject to receipt of the approval and adoption of this Agreement and approval of the Merger by City's stockholders, the consummation of the transactions contemplated by this Agreement and compliance with the provisions of this Agreement will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit or require any consent, approval or authorization under, or result in any Liens upon any of the properties or assets of City or Merger Sub, under, any provision of (a) the Certificate of Incorporation or Bylaws of City or Merger Sub or the certificates of incorporation or bylaws (or similar organizational documents) of any of their respective subsidiaries, (b) any loan or credit agreement, bond, debenture, note, mortgage, indenture, lease or other material contract, commitment, agreement, arrangement, obligation, undertaking, instrument, permit, concession, franchise or license applicable to City or Merger Sub or any of their respective subsidiaries or its properties or assets or (c) assuming the truth and accuracy of the representations and warranties of USA, Ticket and TMOL herein, any statute, law, ordinance, rule or regulation or judgment, order or decree, in each case, applicable to City or Merger Sub or any of their respective subsidiaries or their respective properties or assets, other than, in the case of clauses (b) and (c), any such conflicts, violations, defaults, rights or Liens or other occurrences that individually or in the aggregate could not reasonably be expected to have

a City Material Effect. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity, is required by or with respect to City or Merger Sub or any of their respective subsidiaries in connection with the execution and delivery of this Agreement by City or the consummation by City of the Merger or the other transactions contemplated by this Agreement, except for (a) the filing of the Certificate of Merger with the Delaware Secretary of State, (b) compliance with and filings under, any applicable requirements of the Securities Act or the Exchange Act in connection with the Merger, (c) such consents, approvals, orders, authorizations, registrations, declarations or filings as may be required under the HSR Act and (d) such other consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to be obtained or made, individually or in the aggregate, could not reasonably be expected to (i) have a City Material Effect or (ii) prevent or materially delay any of the transactions contemplated by this Agreement.

4.4 Financial Statements; No Undisclosed Liabilities.

(a) The audited balance sheet of City as of December 31, 1997 and the related audited statements of operations, stockholders' equity and cash flows for the period from January 1, 1997 through December 31, 1997, together with the unaudited balance sheet of City (the "CITY BALANCE SHEET") as of June 30, 1998 (the "CITY BALANCE SHEET DATE") and the related unaudited statements of operations, stockholders' equity and cash flows for the six month period ending June 30, 1998 (collectively, including the related notes and schedules thereto, the "CITY FINANCIAL STATEMENTS") are in accordance with the books and records of City and are complete and correct in all material respects, have each been prepared in accordance with GAAP in conformity with the practices consistently applied by City throughout the periods involved and present fairly the financial position, results of operations and cash flows of City as of the dates and for the periods specified. True and complete copies of the City Financial Statements have previously been supplied to USA.

(b) As of the City Balance Sheet Date, City did not have any material indebtedness, obligations or liabilities of any kind (whether accrued, absolute, contingent or otherwise, and whether due or to become due or asserted or unasserted), which were not fully reflected in, reserved against or otherwise described in the City Balance Sheet. Since the City Balance Sheet Date, City has not incurred any material indebtedness, obligations or liabilities of any kind (whether accrued, absolute, contingent or otherwise, and whether due or to become due or asserted or unasserted), other than those incurred in the ordinary course of business consistent with past practice.

4.5 Absence of Certain Changes or Events. Since the City Balance

Sheet Date and until the date hereof, City and its subsidiaries have conducted their respective businesses only in the ordinary course consistent with past practice, and there has not been (a) any declaration, setting aside or payment of any dividend on, or other distribution (whether in cash, stock or property) with respect to any of City's or any of its subsidiaries' capital stock, (b) any split, combination, reclassification or repurchase of any of City's or any of its subsidiaries' capital stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of City's or any of its subsidiaries' capital stock, (c) (i) any granting by City or any of its subsidiaries to any officer of City or any of its subsidiaries of any increase in compensation, except in the ordinary course of business consistent with past practice, (ii) any granting by City or any of its subsidiaries to any officer of City or any of its

subsidiaries of any increase in severance or termination pay, or (iii) any entry by City or any of its subsidiaries into (A) any currently effective employment, severance, termination or indemnification agreement, or consulting agreement (other than in the ordinary course of business consistent with past practice), with any current or former officer, director, employee or consultant or (B) any agreement with any current or former officer, director, employee or consultant the benefits of which are contingent, or the terms of which are materially altered, upon the occurrence of a transaction involving City of the nature contemplated by this Agreement, (d) any material damage, destruction or loss, whether or not covered by insurance, (e) any material change in accounting methods, principles or practices by City, except insofar as may have been required by a change in GAAP or (f) any material tax election by City.

4.6 Litigation. There is no suit, claim, action, proceeding or, to

the knowledge of City, investigation, pending or, to the knowledge of City, threatened, against or affecting City, nor is there any judgment, order, decree or injunction of any Governmental Entity or arbitrator outstanding against, or, to the knowledge of City, investigation by any Governmental Entity involving City except for such suits, claims, actions, proceedings, investigations, judgments, orders, decrees, or injunctions which, individually and in the aggregate, could not reasonably be expected to (a) have a City Material Effect or (b) prevent or materially delay any of the transactions contemplated by this Agreement.

4.7 Contracts. Except as has been filed by City with the SEC, as of

the date hereof, neither City, nor any subsidiary thereof, is a party to, nor are any of their properties or assets bound by, any contract required to be filed with any filing made by City with the SEC by Item 601(10) of Regulation S-K promulgated under the Securities Act. Neither City nor any of its subsidiaries is, nor to the knowledge of City is any other party, in violation of or in default (with or without notice or lapse of time, or both) under any such filed contract, except for any such violations or defaults that could not reasonably be expected to, individually or in the aggregate, (i) prevent or materially delay consummation of any of the transactions contemplated hereby or (ii) have a City Material Effect.

4.8 Compliance With Laws. City and its subsidiaries are in compliance

with all statutes, laws, ordinances, rules, regulations, judgments, orders and decrees of any Governmental Entity applicable to their businesses or operations, except for instances of possible noncompliance that individually or in the aggregate could not reasonably be expected to have a City Material Effect. City and its subsidiaries have in effect all Permits necessary for them to own, lease or operate their properties and assets and to carry on their businesses as now conducted and there has occurred no violation of, or default under, any such Permit, except for the lack of Permits and for violations of, or defaults under, Permits which lack, violation or default individually or in the aggregate could not reasonably be expected to have a City Material Effect. As of the date of this Agreement, neither any of the representations or warranties made by City in this Agreement nor the statements made in the City Schedules, when taken together as a whole, under the circumstances in which they were made, contains any untrue statement of a material fact, or omits to state any material fact necessary in order to make the statements contained in such representations, warranties and statements not misleading. As of the date of this Agreement, the statements made in the S-1 Registration Statement filed by City with the SEC, as amended, when taken together as a whole, under the circumstances in which they were made, do not contain any untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained therein not misleading (it being understood that City will not consummate the public offering

or effect the amendments to its Certificate of Incorporation contemplated by such Registration Statement).

4.9 Absence of Changes in Benefit Plans; Employment Agreements; Labor

Relations. Since the City Balance Sheet Date and until the date hereof, there

has not been any termination, adoption, amendment or agreement to amend in any material respect by City or any of its subsidiaries of any material Benefit Plan. As of the date hereof there exist no currently binding employment, severance or termination agreements or material consulting agreements between City or any of its subsidiaries and any current or former officer of City or any of its subsidiaries. There are no collective bargaining or other labor union agreements to which City or any of its subsidiaries is a party or by which it is bound. Neither City nor any of its subsidiaries has encountered any labor union organizing activity, nor had any actual or threatened employee strikes, work stoppages, slowdowns or lockouts.

4.10 ERISA Compliance.

(a) Section 4.10(a) of the City Schedules contains a list of all "employee pension benefit plans" (as defined in Section 3(2) of ERISA) (sometimes referred to herein as "CITY PENSION PLANS"), "employee welfare benefit plans" (as defined in Section 3(1) of ERISA) and all other Benefit Plans maintained or contributed to by City or any of its subsidiaries or any person or entity that, together with City or any of its subsidiaries, is treated as a single employer under Section 414(b), (c), (m) or (o) of the Code (a "CITY COMMONLY CONTROLLED ENTITY") for the benefit of any current or former officers, directors or employees of City or any of its subsidiaries. City has made available to USA true, complete and correct copies of (i) each Benefit Plan (or, in the case of any unwritten Benefit Plans, descriptions thereof), (ii) the most recent annual report on Form 5500 required to be filed with the Internal Revenue Service (the "IRS") with respect to each Benefit Plan (if any such report was required), (iii) the most recent summary plan description and all material modifications thereto for each Benefit Plan for which such summary plan description is required and (iv) each trust agreement and group annuity contract relating to any Benefit Plan. Each Benefit Plan has been administered in accordance with its terms, except where the failure to so administer could not, individually or in the aggregate, reasonably be expected to have a City Material Effect. City and its subsidiaries and all the Benefit Plans are all in compliance with applicable provisions of ERISA and the Code, except for instances of possible noncompliance that could not, individually or in the aggregate, reasonably be expected to have a City Material Effect.

(b) Each of the City Pension Plans has been the subject of a determination letter (or its equivalent) from the IRS to the effect that such City Pension Plan is qualified and exempt from United States Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination letter (or its equivalent) has been revoked nor has any event occurred since the date of its most recent determination letter (or its equivalent) or application therefor that would adversely affect its qualification or materially increase its costs.

(c) Neither City nor any City Commonly Controlled Entity has maintained, contributed to or been obligated to contribute to any Benefit Plan that is subject to Title IV of ERISA.

(d) No officer or employee of City or any of its subsidiaries will be entitled to any additional compensation or benefits or any acceleration of the time of payment or vesting of any compensation or benefits under any Benefit Plan as a result of the transactions contemplated by this Agreement or any benefits under any Benefits Plan the value of which will be calculated on the basis of any of the transactions contemplated by this Agreement.

(e) City: (i) has withheld and reported all amounts required by law or by agreement to be withheld and reported with respect to wages, salaries and other payments to any current or former employee, consultant or director of City ("CITY EMPLOYEES"); (ii) is not liable for any arrears of wages or any taxes or any penalty for failure to comply with any of the foregoing; and (iii) is not liable for any payment to any trust or other fund governed by or maintained by or on behalf of any governmental authority, with respect to unemployment compensation benefits, social security or other benefits or obligations for City Employees (other than routine payments to be made in the normal course of business and consistent with past practice), except, in the case of (i) through (iii) above, for such noncompliance or liability as could not reasonably be expected to have a City Material Effect. There are no pending, threatened or reasonably anticipated claims or actions against City under any worker's compensation policy or long-term disability policy.

4.11 Taxes. City and each of its subsidiaries have filed all material

Returns required to be filed by it and all such Returns are true and correct in all material respects (except where adequate reserves have been established therefore on the City Balance Sheet). All Taxes that accrue or are payable by City and each of its subsidiaries in respect of taxable periods that end on or before the Closing Date have been (on or before the Closing Date) timely paid or an adequate reserve has been established on the City Balance Sheet. The most recent financial statements, dated June 30, 1998, (a true, correct complete copy of which has been delivered to TMOL by City) reflect an adequate reserve for all Taxes payable by City and each of its subsidiaries for all taxable periods and portions thereof through the date of such financial statements and no liabilities for Taxes have been incurred since the date of such financial statements except in the ordinary course of business. No deficiencies for any Taxes have been proposed, asserted or assessed against City or any of its subsidiaries, and no requests for waivers of the time to assess any such Taxes are pending. No audit or other examination of any Return of City is currently in progress, nor has City been notified of any request for such an audit or other examination. City has provided or made available for inspection copies of all foreign, federal and state income and state sales and use Tax Returns for all periods since the date of City's incorporation. There are (and as of immediately following the Effective Date there will be) no liens, pledges, charges, claims, security interests or other encumbrances of any sort on the assets of City relating to or attributable to Taxes. As of the Effective Time, there will not be any contract, agreement, plan or arrangement, including but not limited to the provisions of this Agreement, covering any employee or former employee of City that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to Section 280G or 162 of the Code. City is not a party to a tax sharing or allocation agreement nor does City owe any amount under any such agreement.

4.12 No Excess Parachute Payments. No amount that could be received

(whether in cash or property or the vesting of property) as a result of any of the transactions contemplated by this Agreement by any employee, officer or director of City who is a "disqualified individual" (as such term is defined

in proposed Treasury Regulation Section 1.280G-1) under any employment, severance or termination agreement, other compensation arrangement or Benefit Plan currently in effect would be an "excess parachute payment" (as such term is defined in Section 280G(b)(1) of the Code). No such person is entitled to receive any Parachute Gross-Up Payment from City, the Surviving Corporation or any other person in the event that the excise tax of Section 4999(a) of the Code is imposed on such person. The Board of Directors of City has not granted to any officer, director or employee of City any right to receive any Parachute Gross-Up Payment.

4.13 Title to Properties.

(a) City and each of its subsidiaries has good and marketable title to, valid leasehold interests in, or valid license rights to use all of its material properties and assets except for such as are no longer used or useful in the conduct of its businesses or as have been disposed of in the ordinary course of business and except for defects in title, easements, restrictive covenants and similar encumbrances that individually or in the aggregate could not reasonably be expected to have a City Material Effect. All such material assets and properties, other than assets and properties in which City or any of its subsidiaries has a leasehold interest, are free and clear of all Liens (other than Liens for current taxes not yet due and payable), except for Liens that individually or in the aggregate could not reasonably be expected to have a City Material Effect.

(b) Each of City and its subsidiaries has complied in all material respects with the terms of all material leases to which it is a party and under which it is in occupancy, all such leases are in full force and effect, except for such noncompliance or failure to be in full force and effect as individually or in the aggregate could not reasonably be expected to have a City Material Effect and have been made available to USA. City and its subsidiaries enjoy peaceful and undisturbed possession under all such material leases, except for failures to do so that individually or in the aggregate could not reasonably be expected to have a City Material Effect.

4.14 Intellectual Property.

(a) City and its subsidiaries own, or have the right to use, sell or license all material intellectual property necessary or required for the conduct of their respective businesses as presently conducted and as presently contemplated (such intellectual property and the rights thereto are collectively referred to as the "CITY IP RIGHTS").

(b) City and its subsidiaries have taken all reasonable steps necessary or appropriate (including, entering into appropriate confidentiality, nondisclosure agreements with officers, directors, subcontractors, independent contractors, full-time and part-time employees, licensees and customers) to safeguard and maintain the secrecy and confidentiality of, and the proprietary rights in, the City IP Rights material to their business.

(c) (i) Neither the manufacture, marketing, license, sale or intended use of any product or technology currently licensed or sold by City or any of its subsidiaries violates in any material respect any license or agreement between City or any of its subsidiaries and any third party or infringes

in any material respect any proprietary right of any other party; and (ii) there is no pending or, to the knowledge of City, threatened claim or litigation contesting the validity, ownership or right to use, sell, license or dispose of any City IP Right.

4.15 Section 203 of Delaware Law Not Applicable. The Board of

 Directors of City has taken all actions so that the restrictions contained in Section 203 of Delaware Law applicable to a "business combination" (as defined in such Section 203) will not apply to the execution, delivery or performance of this Agreement or to the consummation of the Merger or the other transactions contemplated by this Agreement or the Convertible Note, and, to the knowledge of City, no other "fair price," moratorium," "control share acquisition," or other anti-takeover statute or similar statute or regulation applies or purports to apply to this Agreement, the Merger, the Convertible Note or the transactions contemplated hereby or thereby.

4.16 Brokers. No broker, investment banker, financial advisor or other

 person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of City, except for NationsBanc Montgomery Securities, Inc. Except for the foregoing, as of the date hereof, City is not a party to any agreement obligating it to retain any investment banking firm as a financial advisor and to pay such investment banking firm a material fee for advisory services in connection with any financing or acquisition transaction.

4.17 Merger Sub. Merger Sub was incorporated for the purpose of

 consummating the Merger (or another merger transaction) and has conducted no business of any kind whatsoever.

ARTICLE V ADDITIONAL AGREEMENTS

5.1 Conduct of Business. During the period from the date of this

 Agreement and continuing until the earlier of the termination of this Agreement pursuant to its terms or the Effective Time, each of TMOL (which for the purposes of this Article V shall include TMOL and USA and Ticket with respect to any assets that are used for the conduct of the business of TMOL or exploitation of Online Revenue Rights) and City (which for the purposes of this Article V shall include City and each of its subsidiaries) agree, except (i) in the case of TMOL as provided in Article V of the USA Schedules and in the case of City as provided in Article V of the City Schedules, or (ii) to the extent that the other of them shall otherwise consent in writing, to carry on its business diligently and in accordance with good commercial practice and to carry on its business in the usual, regular and ordinary course, in substantially the same manner as heretofore conducted and in compliance with all applicable laws and regulations, to pay its debts and taxes when due subject to good faith disputes over such debts or taxes, to pay or perform other material obligations when due, and use its commercially reasonable efforts consistent with past practices and policies to preserve intact its present business organization, keep available the services of its present officers and employees and preserve its relationships with customers, suppliers, distributors, licensors, licensees, and others with which it has business dealings. In addition, each of TMOL and City will promptly notify the other of any material event involving its business or operations.

Furthermore, TMOL and City agree that during the period prior to the Effective Time their respective senior management groups will participate in informational meetings on a regular basis, at such time and place as shall be mutually agreeable. No information or knowledge obtained in any investigation will affect or be deemed to modify any representation or warranty contained herein or the conditions to the obligations of the parties to consummate the Merger.

In addition, except as permitted by the terms of this Agreement, and except in the case of TMOL as provided in Article V of the USA Schedules, and except in the case of City as provided in Article V of the City Schedules, without the prior written consent of the other, neither TMOL nor City shall do any of the following, and City shall not permit its subsidiaries to do any of the following:

(a) Waive any stock repurchase rights (other than as may be consistent with past practices), accelerate, amend or change the period of exercisability of options or restricted stock, or reprice options granted under any employee, consultant or director stock plans or authorize cash payments in exchange for any options granted under any of such plans;

(b) Grant any severance or termination pay to any officer or employee except payments in amounts consistent with policies and past practices or pursuant to written agreements outstanding, or policies existing, on the date hereof and as previously disclosed in writing to the other, or adopt any new severance plan;

(c) Transfer or license to any person or entity or otherwise extend, amend or modify in any material respect any rights to the (i) TMOL IP Rights or the Online Revenue Rights or (ii) the City IP Rights, as the case may be, or enter into grants to future patent rights;

(d) Declare or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any capital stock or split, combine or reclassify any capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any capital stock;

(e) Repurchase or otherwise acquire, directly or indirectly, any shares of capital stock except pursuant to rights of repurchase of any such shares under any employee, consultant or director stock plan existing on the date hereof;

(f) Issue, deliver, sell, authorize or propose the issuance, delivery or sale of, any shares of capital stock or any securities convertible into shares of capital stock, or subscriptions, rights, warrants or options to acquire any shares of capital stock or any securities convertible into shares of capital stock, or enter into other agreements or commitments of any character obligating it to issue any such shares or convertible securities, other than (i) the issuance of shares of City Common Stock pursuant to the exercise of stock options or warrants therefor outstanding, as of the date of this Agreement, (ii) options to purchase up to 200,000 shares of City Common Stock by City with regard to the hiring of a Vice President of Engineering (or similar employee), up to 100,000 additional shares of City Common Stock by City to employees and such additional amounts by City to which TMOL shall be required to consent (which consent shall not be unreasonably withheld) or up to such number of

shares of TMOL Common Stock as would equal, when exchanged in the Merger pursuant to the Exchange Ratio, 300,000 shares of City Common Stock by TMOL to be granted at fair market value with four year vesting and a one year cliff and, in the case of City, in the ordinary course of business, consistent with past practice, and, in the case of City, in accordance with stock option plans existing on the date hereof, and for which neither City nor TMOL will be required under GAAP to record an accounting charge as a result of the grant or vesting of such options, or (iii) shares of City Common Stock issuable upon the exercise of the options referred to in clause (ii);

(g) Cause, permit or propose any amendments to any charter document or bylaw (or similar governing instruments of any subsidiaries);

(h) Acquire or agree to acquire by merging or consolidating with, or by purchasing any equity interest in or a material portion of the assets of, or by any other manner, any business or any corporation, partnership interest, association or other business organization or division thereof, or other wise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the business of TMOL or City, as the case may be, or enter into any material joint ventures, strategic partnerships or alliances;

(i) Sell, lease, license, encumber or otherwise dispose of any properties or assets which are material, individually or in the aggregate, to the business of TMOL or City, as the case may be, except in the ordinary course of business consistent with past practice;

(j) Incur any indebtedness for borrowed money (other than ordinary course trade payables or pursuant to existing credit facilities in the ordinary course of business) or guarantee any such indebtedness or issue or sell any debt securities or warrants or rights to acquire debt securities of TMOL or City, as the case may be, or guarantee any debt securities of others;

(k) Adopt or amend any employee benefit or employee stock purchase or employee option plan, or enter into any employment contract, pay any special bonus or special remuneration to any director or employee, or increase the salaries or wage rates of its officers or employees other than in the ordinary course of business, consistent with past practice, or change in any material respect any management policies or procedures;

(l) Pay, discharge or satisfy any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction in the ordinary course of business;

(m) Make any grant of exclusive rights to any third party;

(n) in the case of TMOL, enter into or modify any contract or new arrangement with USA or any affiliate thereof or terminate any contract or arrangement (including, without limitation, the TMOL Business Agreement);

(o) make any change in accounting methods, principles or practices, except as may be required by GAAP;

(p) knowingly take any other action which would cause any of the conditions set forth in Article VI not to be satisfied;

(q) make or agree to make any material capital expenditures outside the ordinary course of business;

(r) Agree in writing or otherwise to take any of the actions described in Section 5.1(a) through (q) above.

In addition, USA covenants that it shall cause TMOL and Ticket to comply with all covenants herein and shall not, and shall cause TMOL, Ticket and each of USA's affiliates not, to transfer or license to any person or entity or otherwise extend, amend or modify in any material respect any rights to the TMOL IP Rights or the Online Revenue Rights. USA acknowledges and agrees that any breach by TMOL of any covenant set forth in this Section 5.1 shall constitute a breach hereof by USA.

5.2 City Stockholder Vote. City shall take all actions necessary to

submit, as promptly as practicable after the date hereof, this Agreement and the transactions contemplated hereby, including, without limitation, the Merger, to its stockholders for approval and adoption, by a vote at a duly called stockholders meeting or by written consent, as provided by applicable law and City's Certificate of Incorporation and Bylaws. In connection therewith, the parties hereto shall cooperate to prepare and deliver to City's stockholders such information as City shall reasonably require. Each party hereto represents and warrants that none of the information supplied or to be supplied by it specifically for inclusion or incorporation by reference in the information delivered to City's stockholders relating to the approval and adoption of this Agreement and approval of the Merger will (except to the extent revised or superseded by amendments or supplements contemplated hereby), at the date it is first mailed to City's stockholders or at the time of any meeting of City's stockholders to consider approval and adoption of this Agreement and approval of the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. City agrees to use its reasonable efforts to cause its stockholders to approve this Agreement and the Merger and the other transactions contemplated by this Agreement.

5.3 Restrictions on Transfer. Each certificate representing City

Common Stock issued in the Merger, and any shares issued or issuable in respect of any such shares upon any stock split, stock dividend, recapitalization, or similar event, shall be stamped or otherwise imprinted with restrictive legends as set forth below:

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL

SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED."

5.4 Confidentiality; Access to Information.

(a) USA, Ticket and TMOL hereby agree to treat any nonpublic information concerning City (whether prepared by City, its advisors or otherwise and irrespective of the form of communication) which is furnished hereunder to them or to their directors, officers, employees, agents or advisors (including, without limitation, attorneys, accountants, consultants, bankers and financial advisors) (collectively, "REPRESENTATIVES") now or in the future by or on behalf of City (herein collectively referred to as the "EVALUATION MATERIAL") in accordance with the provisions below, and to take or abstain from taking certain other actions hereinafter set forth. The term "Evaluation Material" also shall be deemed to include all notes, analyses, compilations, studies, interpretations or other documents prepared by City or its Representatives which contain, reflect or are based upon, in whole or in part, the information furnished by City or its Representatives pursuant hereto which is not available to the general public. The term "Evaluation Material" does not include information which (i) is or becomes generally available to the public other than as a result of a breach of this Agreement by USA, Ticket or TMOL or their Representatives, (ii) was within their possession prior to its being furnished to them by or on behalf of City, provided that the source of such information was not known by them to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to City, (iii) is or becomes available to them on a non-confidential basis from a source other than City or any of its Representatives, provided that such source was not known by them to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to City or any other party with respect to such information or (iv) is independently developed by them without use of Evaluation Material.

(b) USA, Ticket and TMOL hereby agree that they and their Representatives shall use City's Evaluation Material solely for the purpose of evaluating the transactions contemplated hereby, and that City's Evaluation Material will be kept confidential and they and their Representatives will not disclose or use for purposes other than the evaluation of the transactions contemplated hereby any of City's Evaluation Material in any manner whatsoever.

(c) Each party will afford the other party and such other party's accountants, counsel and other representatives reasonable access during normal business hours to its properties, books, agreements, records and personnel during the period prior to the Effective Time to obtain all information concerning its business, including the status of product development and license efforts, properties, results of operations and personnel, as such other party may reasonably request. No information or knowledge obtained in any investigation pursuant to this Section 5.4 will affect or be deemed to modify any representation or warranty contained herein or the conditions to the obligations of the parties to consummate the Merger.

5.5 No Solicitation.

(a) Restrictions on TMOL. From and after the date of this

Agreement until the earlier of the Effective Time or termination of this Agreement pursuant to its terms, USA, TMOL and their respective subsidiaries shall not, and will instruct their respective directors, officers, employees, representatives, investment bankers, agents and affiliates not to, directly or indirectly, (i) solicit or encourage submission of, any proposals or offers by any person, entity or group (other than City and its affiliates, agents and representatives), or (ii) participate in any discussions or negotiations with, or disclose any nonpublic information concerning TMOL, USA or any of their respective subsidiaries to, or afford any access to the properties, books or records of TMOL, USA or any of their respective subsidiaries to, or otherwise assist or facilitate, or enter into any agreement or understanding with, any person, entity or group (other than City and its affiliates, agents and representatives), in connection with any Acquisition Proposal with respect to TMOL.

For the purposes of this Agreement, an "ACQUISITION PROPOSAL" with respect to an entity means any proposal or offer relating to (i) any merger, consolidation, sale of substantial assets or similar transactions involving the entity or any subsidiaries of the entity (or, in the case of TMOL, any affiliate of USA with assets used in the conduct of TMOL's business or exploitation of the Online Revenue Rights) (other than sales or licenses of assets or inventory in the ordinary course of business or as permitted under the terms of this Agreement), (ii) sale of 10% or more of the then outstanding shares of capital stock of the entity (or, in the case of TMOL, any affiliate of USA with assets used in the conduct of TMOL's business or the exploitation of the Online Revenue Rights) (including, without limitation, by way of a tender offer or an exchange offer), (iii) the acquisition by any person of beneficial ownership or a right to acquire beneficial ownership of, or the formation of any "group" (as defined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) which beneficially owns, or has the right to acquire beneficial ownership of, 15% or more of the then outstanding shares of capital stock of the entity (or, in the case of TMOL, any affiliate of USA with assets used in the conduct of TMOL's business or exploitation of the Online Revenue Rights); or (iv) any public announcement of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing. TMOL and USA will immediately cease any and all existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing. TMOL and USA will (i) notify City as promptly as practicable if any inquiry or proposal is made or any information or access is requested in writing in connection with an Acquisition Proposal or potential Acquisition Proposal and (ii) as promptly as practicable notify City of the identity of the potential bidder and the significant terms and conditions of any such Acquisition Proposal. In addition, from and after the date of this Agreement until the earlier of the Effective Time and termination of this Agreement pursuant to its terms, TMOL, USA and their respective subsidiaries will not, and will instruct their respective directors, officers, employees, representatives, investment bankers, agents and affiliates not to, directly or indirectly, make or authorize any public statement, recommendation or solicitation in support of any Acquisition Proposal made by any person, entity or group (other than City).

(b) Restrictions on City. From and after the date of this Agreement until the earlier of the Effective Time or termination of this Agreement pursuant to its terms, City and its subsidiaries will not, and will instruct their respective directors, officers, employees, representatives, investment bankers, agents and affiliates not to, directly or indirectly, (i) solicit or encourage submission of, any proposals or offers by any person, entity or group (other than TMOL and its affiliates, agents and representatives), or (ii) participate in any discussions or negotiations with, or disclose any nonpublic information concerning City or any of its subsidiaries to, or afford any access to the properties, books or records of City or any of its subsidiaries to, or otherwise assist or facilitate, or enter into any agreement or understanding with, any person, entity or group (other than TMOL and its affiliates, agents and representatives), in connection with any Acquisition Proposal with respect to City. City will immediately cease any and all existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing. City will (i) notify TMOL as promptly as practicable if any inquiry or proposal is made or any information or access is requested in writing in connection with an Acquisition Proposal or potential Acquisition Proposal and (ii) as promptly as practicable notify TMOL of the identity of the potential bidder and the significant terms and conditions of any such Acquisition Proposal. In addition, from and after the date of this Agreement until the earlier of the Effective Time and termination of this Agreement pursuant to its terms, City and its subsidiaries will not, and will instruct their respective directors, officers, employees, representatives, investment bankers, agents and affiliates not to, directly or indirectly, make or authorize any public statement, recommendation or solicitation in support of any Acquisition Proposal made by any person, entity or group (other than TMOL).

5.6 Public Disclosure. City, TMOL, Ticket, and USA will use

commercially reasonable efforts to consult with each other, and to the extent practicable, agree, before issuing any press release or otherwise making any public statement with respect to the Merger or this Agreement and will not issue any such press release or make any such public statement prior to such consultation, except as may be required by law.

5.7 Tax Free Reorganization. Each of the parties hereto agrees not to

take any action either prior to or after the Effective Time that would reasonably be expected to cause the Merger to fail to qualify as a "reorganization" under Section 368 of the Code.

5.8 Commercially Reasonable Efforts; Regulatory Filings;

Notification.

(a) Upon the terms and subject to the conditions set forth in this Agreement, each of the parties hereto agrees to use commercially reasonable efforts to take, or cause to be taken, such actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, such things as are necessary, proper or advisable to consummate and make effective, as expeditiously as reasonably practicable, the Merger and the other transactions contemplated by this Agreement, including using commercially reasonable efforts to accomplish the following: (i) the taking of such reasonable acts as are necessary to cause the conditions precedent set forth in Article VI to be satisfied, (ii) the obtaining of all necessary actions or nonactions, waivers, consents, approvals, orders and authorizations from Governmental Entities and the making of all necessary registrations, declarations and filings (including registrations, declarations and filings with Governmental Entities, if any) and the taking of such reason-

able steps as may be necessary to avoid any suit, claim, action, investigation or proceeding by any Governmental Entity, (iii) the obtaining of all necessary consents, approvals or waivers from third parties, (iv) the defending of any suits, claims, actions, investigations or proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby, including seeking to have any stay or temporary restraining order entered by any court or other Governmental Entity vacated or reversed and (v) the execution or delivery of any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement. In connection with and without limiting the foregoing, each of the parties hereto and its respective Board of Directors shall, if any state takeover statute or similar statute or regulation is or becomes applicable to the Merger, this Agreement or any of the transactions contemplated by this Agreement, use commercially reasonable efforts to ensure that the Merger and the other transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise to minimize the effect of such statute or regulation on the Merger, this Agreement and the transactions contemplated hereby. Notwithstanding anything herein to the contrary, nothing in this Agreement shall be deemed to require City or TMOL or any subsidiary or affiliate thereof to agree to any divestiture by itself or any of its affiliates of shares of capital stock or of any business, assets or property, or the imposition of any material limitation on the ability of any of them to conduct their businesses or to own or exercise control of such assets, properties and stock. If and to the extent City is contractually required to incur indebtedness for borrowed money convertible into its equity securities (other than the Convertible Note) as a result of the issuance of the Convertible Note, City will take all action required to provide the holder of the Convertible Note the intended benefits of its investment (it being understood that the covenant in this sentence shall survive termination of this Agreement).

(b) As soon as may be reasonably practicable, the parties hereto shall file with the United States Federal Trade Commission (the "FTC") and the Antitrust Division of the United States Department of Justice (the "DOJ") Notification and Report Forms relating to the transactions contemplated herein as required by the HSR Act, as well as any comparable pre-merger notification forms required by the merger notification or control laws and regulations of any applicable jurisdictions, as agreed to by the parties. The parties hereto shall promptly (i) supply each other with any information which may be required in order to effectuate such filings and (ii) supply any additional information which reasonably may be required by the FTC, the DOJ or the competition or merger control authorities of any other jurisdiction and which the parties may reasonably deem appropriate.

(c) USA, Ticket and TMOL shall give prompt notice to City of any representation or warranty made by USA, Ticket or TMOL contained in this Agreement becoming untrue or inaccurate, or any failure of USA, Ticket or TMOL to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement, in each case, such that the conditions set forth in Section 6.3 would not be satisfied, provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement.

(d) City and Merger Sub shall give prompt notice to USA of any representation or warranty made by City or Merger Sub contained in this Agreement becoming untrue or inaccurate, or

any failure of City or Merger Sub to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement, in each case, such that the conditions set forth in Section 6.2 would not be satisfied, provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement.

(e) USA, Ticket and TMOL shall take all action required to ensure that immediately following the Effective Time and thereafter, the Surviving Corporation shall possess all Online Revenue Rights without any additional cost to the Surviving Corporation and free and clear of all Liens.

5.9 Convertible Note. Concurrently with the execution of this Agreement,

USA shall wire transfer \$50,000,000 to City to the account previously designated by City against delivery by City of the Convertible Note.

5.10 Agreement to Vote Shares. At every meeting of the stockholders of

City called with respect to approval of the adoption of this Agreement and/or approval of the Merger, and at every adjournment thereof, and on every action or approval by written consent of the stockholders of City with respect to such matter, USA and each affiliate thereof shall cause the shares of City capital stock held or beneficially owned by it to be voted in favor of approval of adoption of this Agreement and approval of the Merger and all other transactions contemplated by this Agreement. In addition, USA will take all voting action within its power to ensure that all outstanding shares of City Series E Preferred Stock are converted to Common Stock in connection with the Merger prior to the Effective Time and that the Stockholders' Agreement is terminated as required by Section 6.2(d) hereof.

5.11 Corporate Governance Matters.

(a) Management of Combined Company: Until his successor shall be duly

appointed and qualified, Charles Conn will be Chief Executive Officer of the Combined Company following the Merger. Until his successor shall be duly appointed and qualified, Alan Citron will become the Chairman of the Board of the Combined Company following the Merger. Following the Merger, the Chief Financial Officer of the Combined Company will be appointed and approved by the Board of the Combined Company in accordance with the terms hereof.

(b) Nomination of Directors: The Combined Company Board will be

governed by a Board of Directors consisting of twelve members. The number of directors may not be increased or decreased without approval of a majority of the City Directors (as defined below) then in office. At any election of directors of the Combined Company the members of the Board of Directors shall be nominated as follows: (i) USA shall have the right to nominate six directors of the Combined Company (each, a "USA Director"); (ii) the holders of City Common Stock other than USA, Ticket, any of their respective affiliates and any transferees of shares of City Common Stock previously held by USA, Ticket or any of their respective affiliates ("USA City Shares"), shall have the right to nominate four directors of the Combined Company (each, a "City Director"); and (iii) the USA Directors and the City Directors shall each (as a separate group) have the right to nominate one independent director of the Combined Company who shall not be affiliated with USA or Ticket (each, an "INDEPENDENT DIRECTOR"), provided,
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that for the initial election of directors to be effective at the Effective

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Time, one independent directorship shall be filled by each of the USA Directors and the City Directors (as a separate group) and provided further that the USA

Directors shall consult with the City Directors in connection with nominating the Independent Director nominated by them (the "USA INDEPENDENT DIRECTOR") and the City Directors shall consult with the USA Directors in nominating the Independent Director nominated by them (the "CITY INDEPENDENT DIRECTOR"). With respect to the nomination of individuals to serve as the City Directors (each a "CITY NOMINEE"), votes for such nomination shall be cast and tallied on a cumulative basis (with each share of Common Stock, regardless of the voting rights attached thereto, deemed to have one vote per share for such purpose) and the City Nominees shall be those four individuals (or fewer if a fewer number of City Directors are to be elected) in favor of whom the highest number of votes are cast. If a vacancy occurs or exists on the Board of Directors at any time, including but not limited to a vacancy because of the death, disability, retirement, resignation or removal of any director for cause or otherwise, then: (A) with respect to a vacancy created by a USA Director or the USA Independent Director, the remaining USA Directors shall have the sole right to fill such vacancy; and (B) with respect to a vacancy created by a City Director or the City Independent Director, the remaining City Directors shall have the sole right to fill such vacancy (with each of the Independent Directors remaining subject to consultation with the appropriate directors as provided herein). In addition, unless the Board of Directors objects, the Company will invite Charles Conn and Thomas Layton to attend meetings of the Board of Directors in a nonvoting observer capacity. Upon the earliest to occur of (X) the exercise of the Put (as such term is defined in Section 5.13 below), (Y) the expiration of the Third Put (as such term is defined in Section 5.13 below), and (Z) the consummation of a Qualified IPO, if the holders of City Common Stock (other than USA City Shares) as of immediately prior to the Effective Time ("ORIGINAL CITY HOLDERS") dispose of their shares to persons other than Original City Holders or their affiliates or to USAi pursuant to the Offer, then the number of City Directors shall be reduced (and the number of directors shall be accordingly reduced) as follows: (i) if more than 25% of the shares of City Common Stock held by Original City Holders as of the Effective Time are so disposed, the number of City Directors shall be reduced to three; (ii) if more than 50% of the shares of City Common Stock held by Original City Holders as of the Effective Time are so disposed, the number of City Directors shall be reduced to two; (iii) if more than 75% of the shares of City Common Stock held by Original City Holders as of the Effective Time are so disposed, the number of City Directors shall be reduced to one; and (iv) if more than 80% of the shares of City Common Stock held by Original City Holders as of the Effective Time are so disposed, then the Original City Holders shall no longer have a contractual right hereunder to nominate a City Director.

(c) Voting: The members of the Board of Directors nominated as

described in this Agreement shall be duly elected by the vote of a majority of the issued and outstanding shares entitled to vote thereon. Each stockholder of the Combined Company will vote its shares, subject to applicable law, to ensure the governance of the Combined Company as set forth in this Section 5.11, including, but not limited to, the election of the Directors nominated in accordance with the terms of Section 5.11(b) above. USA and Ticket agree that they shall not be entitled to transfer any of their respective shares of City capital stock to another person or entity unless and until such proposed transferee agrees in writing for the benefit of all other holders of City capital stock to be bound by the provisions of this Section 5.11.

(d) Removal of Directors: The members of the Board of Directors are

subject to removal as follows:

(i) USA Directors: Any USA Director may be removed from office

with or without cause (A) by a majority vote of the other USA Directors, or (B) by a majority vote of all holders of City Common Stock.

(ii) City Directors: Any City Director may be removed from

office with cause by a majority vote of the other City Directors, or with or without cause by a 80% vote of all holders of City Common Stock with votes cast by USA, Ticket, any of their respective affiliates and any transferees of USA City Shares being counted as voted in the same proportion as all other holders of City Common Stock.

(iii) USA Independent Directors: Any USA Independent Director may

be removed from office with or without cause (A) by a majority vote of the USA Directors, or (B) by a majority vote of all holders of City Common Stock.

(iv) City Independent Directors: Any City Independent Director

may be removed from office with or without cause (A) by a majority vote of the City Directors, or (B) a majority vote of all holders of City Common Stock with votes cast by USA, Ticket, any of their respective affiliates and any transferees of USA City Shares being counted as voted in the same proportion as all other holders of City Common Stock.

(e) Meetings: The Board of Directors shall hold regular meetings at

least quarterly. Special Meetings of the Board of Directors may be called by two or more directors. Meetings of the Board of Directors shall be held upon not less than 72 hours notice, provided, however, that such notice can be waived in writing. The notice convening a meeting of the Board of Directors shall set out a detailed agenda of the matters anticipated to be discussed at that meeting.

(f) Quorum; Board Voting: A majority of the directors then in office

that includes not less than one City Director shall constitute a quorum (a "Quorum") for the transaction of business, and the acts of a Quorum present and voting at a meeting shall be the acts of the Board of Directors except as provided below; provided that, with respect to any meeting of the Board of Directors, to the extent proper notice is given for such meeting in accordance with City's By-laws and Section 5.11(e) above and no City Director is present at such meeting, the requirement of attendance of one City Director to constitute a Quorum shall not apply to such meeting. In the event of a tie on the vote on any matter submitted to the Board of Directors, the Chairman shall not have a tie-breaking vote that is in addition to the vote the Chairman otherwise has as a director.

(g) Supermajority Board Approvals: Approval of a majority of the City

Directors then in office voting together with the Independent Directors then in office will be required for the following:

(i) Participation of the Combined Company in any merger or

consolidation or share exchange or any sale, lease, exchange or dissolution of all or any substantial part of the assets

of the Combined Company, except for sales, leases, exchanges or dissolutions of assets comprising, in any twelve month period, less than 20% of the fair value of the Combined Company's assets.

(ii) The issuance or sale by the Combined Company of any additional shares of capital stock of any class or any securities convertible into, exchangeable for, or options or rights to acquire any shares of the Combined Company's capital stock, or any repurchase by the Combined Company of any of the foregoing (other than issuances of shares in connection with (A) the exercise of outstanding employee stock options, (B) the grant of stock options to employees in the ordinary course of business or (C) a Qualified IPO.

(iii) Approval of any change in the Combined Company's principal business.

(iv) The designation, creation or formation of any committee of the Combined Company's Board of Directors authorized to take any action requiring supermajority approval pursuant to this Section 5.11(g), and the appointment, election or designation of members thereof.

(v) The declaration or payment of any dividends or other distributions (whether cash, stock or in kind), direct or indirect, to the holders of capital stock of the Combined Company or the purchase or redemption of any shares of capital stock of the Combined Company, except for the declaration or payment, in any 12 month period, of dividends with a value not in excess of 20% of the fair value of the assets of the Combined Company.

(vi) The creation, incurrence, assumption, guarantee or other action or inaction causing the Combined Company to become liable (directly or indirectly) with respect to indebtedness for borrowed money or the amendment or extension of any financing facility, or any material amendment or variation of an existing facility, except for the creation, incurrence, assumption or guarantee of indebtedness not in the aggregate in excess, in any 12 month period, of 20% of the fair value of the assets of the Combined Company.

(vii) the payment by the Combined Company of the Convertible Note prior to its stated maturity.

(viii) The establishment of or any material amendment to any Combined Company employee stock option or stock purchase plan or establishment of or any material amendment to any other employee earnings incentive scheme or other employee benefit plan by the Combined Company, except as required to conform to applicable law.

(ix) The acquisition (whether by merger, stock purchase, asset purchase or otherwise) of any business or entity by the Combined Company, except for the acquisitions, in any 12 month period, of businesses or entities for consideration not in excess of 20% of the fair value of the assets of the Combined Company.

(x) The amendment of the Combined Company's Certificate of Incorporation or By-laws (other than the amendment (A) of the Combined Company's Certificate of Incorporation to

change the Combined Company's name, (B) of the Combined Company's Certificate of Incorporation to reclassify the Combined Company's common capital stock into classes that are identical with respect to all terms other than voting, (C) of the Combined Company's Certificate of Incorporation to provide for the substance and effect of the provisions of Section 5.13, and (D) of the Combined Company's Certificate of Incorporation and By-laws to make customary changes necessary to facilitate the consummation of a Qualified IPO).

(xi) The commencement of any voluntary proceeding seeking liquidation, reorganization, moratorium, readjustment or other relief with respect to the Combined Company under any bankruptcy, insolvency or similar law or consent to the appointment of a trustee, receiver or liquidator.

(xii) The registration of securities of the Combined Company under the Securities Act or the filing of any registration statement with the United States Securities and Exchange Commission, or the entering into of any underwriting agreement, other than in connection with a Qualified IPO (as defined in Section 5.13).

(xiii) The creation, amendment or termination of any agreement, arrangement, or transaction between the Combined Company and USA, Ticket or any of their respective affiliates.

(xiv) Move of the Combined Company's principal place of business and headquarters outside of the Los Angeles metropolitan area.

(h) Termination of Minority Rights. The provisions of Section 5.11(g)

shall terminate upon the earlier of (i) closing of a Qualified IPO, (ii) exercise of the Put or (iii) expiration of the Third Put. The other provisions of this Section 5.11 shall terminate on the closing of a Qualified IPO.

5.12 Qualified IPO. The Combined Company will use all reasonable efforts to

effect a Qualified IPO as promptly as practicable following consummation of the Merger, and in any event no later than one year after the date of this Agreement.

5.13 Put Option.

(a) In the event that the Merger is consummated, but City does not, within one year from the date hereof, close an underwritten public offering of Common Stock of City pursuant to a registration statement declared effective by the SEC under the Securities Act, involving the offer and sale of shares of Common Stock of City either (x) equal in number to 10% of the number of all shares of outstanding Common Stock of all classes of City at the time of such closing or (y) at an aggregate offering price (after deduction of underwriter commissions and offering expenses) of not less than \$75,000,000 (a "QUALIFIED IPO"), USA (or any successor entity thereof) shall, upon the request and notice of a majority in interest of the City Holders given within the period set forth in the next sentence, as promptly as practicable commence an Exchange Offer (as defined below) (the "FIRST PUT"). Subject to the conditions of the preceding sentence, at the request of and upon notice (the "FIRST PUT NOTICE") by a majority in interest of the City Holders at any time following the date one year from the date hereof

and on or prior to the date one year and forty five days from the date hereof, USA (or any successor entity thereof) shall acquire pursuant to the Exchange Offer from all tendering City Holders, any and all shares of City Common Stock tendered for the following consideration per share (the "PUT CONSIDERATION"):

(i) 0.1548 shares of common stock of USA, \$0.01 par value ("USA COMMON STOCK"), plus

(ii) at the election of USA, either: (A) \$4.34 in immediately available funds or (B) a number of additional shares of USA Common Stock equal to \$4.34 divided by the average closing price of a share of USA Common Stock for the twenty (20) consecutive trading days ending on the date five days prior to the date of the applicable Put Notice, as reported on the Nasdaq National Market or the New York Stock Exchange, as the case may be.

(b) As used in this Section 5.13, "EXCHANGE OFFER" means an exchange offer for any and all shares of City Common Stock complying with all applicable law, subject to (i) a minimum condition of, in the aggregate, 50.1%, on a fully-diluted basis, of the City Common Stock held by City Holders immediately prior to consummation being validly tendered in the Exchange Offer and not withdrawn, and (ii) other customary terms, conditions and tender procedures for a self-tender or exchange offer.

(c) In the event that the Merger is consummated, but City does not, within eighteen months from the date hereof, close a Qualified IPO, USA (or any successor entity thereof) shall, upon the request and notice of a majority in interest of the City Holders given within the period set forth in the next sentence, as promptly as practicable commence an Exchange Offer (as defined below) (the "SECOND PUT"). Subject to the conditions of the preceding sentence, at the request of and upon notice (the "SECOND PUT NOTICE") by a majority in interest of the City Holders at any time following the date eighteen months from the date hereof and on or prior to the date eighteen months and forty five days from the date hereof, USA (or any successor entity thereof) shall acquire pursuant to the Exchange Offer from all tendering City Holders, any and all shares of City Common Stock tendered for the Put Consideration.

(d) In the event that the Merger is consummated, but City does not, within two years from the date hereof, close a Qualified IPO, USA (or any successor entity thereof) shall, upon the request and notice of a majority in interest of the City Holders given within the period set forth in the next sentence, as promptly as practicable commence an Exchange Offer (as defined below) (the "THIRD PUT" and, collectively with the First Put and the Second Put, the "PUT"). Subject to the conditions of the preceding sentence, at the request of and upon notice (the "THIRD PUT NOTICE" and, collectively with the First Put Notice and the Second Put Notice, the "PUT NOTICES") by a majority in interest of the City Holders at any time following the date two years from the date hereof and on or prior to the date two years and forty five days from the date hereof, USA (or any successor entity thereof) shall acquire pursuant to the Exchange Offer from all tendering City Holders, any and all shares of City Common Stock tendered for the Put Consideration.

(e) All shares of USA Common Stock issued pursuant to any exercise of the Put will be validly issued, fully paid and nonassessable, will be free of any Liens and will be freely tradable (including under applicable securities laws) at the time of issuance. USA shall take all actions necessary to ensure the foregoing including, without limitation, if required, the filing of a shelf registration statement covering sale and/or resale of any USA Common Stock issued upon exercise of the Put (and agreeing to customary indemnification of the selling stockholders thereunder) and taking all steps necessary to ensure that such registration statement is declared effective by the SEC prior to any issuance of USA Common Stock upon exercise of the Put and that, if required, such registration statement remains effective until the Put has been exercised in full and all shares issued thereby have been sold. To the extent that the effectiveness of any such registration statement is required for City Holders to make an investment decision with regard to exercise of the Put, the period of exercisability of the Put shall be extended and tolled for any time during which the Put is exercisable and such registration statement is not effective. No fractional shares of USA Common Stock shall be issued pursuant to the Exchange Offer. In lieu of any fractional shares to which any City Holder would otherwise be entitled (after aggregating all shares of City Common Stock being sold by such City Holder pursuant to the Exchange Offer such that the maximum number of whole shares of USA Common Stock is issued to such City Holder thereby), USA (or any successor thereto) shall pay cash equal to (i) such fraction multiplied by (ii) the greater of \$30.00 or the average closing price of a share of USA Common Stock for the ten (10) consecutive trading days ending on the date of the Put Notice, as reported on the Nasdaq National Market or any national exchange (or, if the USA Common Stock is not traded on such market, the fair market value of such shares as determined in good faith by the City Directors). USA shall provide appropriate information to City Holders and shall take all other action within its power and control, subject to applicable law, to enable the City Holders to exercise the Put in a timely fashion pursuant to the terms hereof.

(f) The Put Consideration shall be adjusted to reflect appropriately the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into City Common Stock or USA Common Stock), reorganizations (other than the Merger), recapitalization, reclassification or other like change with respect to City Common Stock or USA Common Stock occurring or having a record date on or after the date hereof and prior to the expiration of the Put.

(g) USA shall make all commercially reasonable efforts (including, without limitation, replacing the Exchange Offer with a forward triangular merger with respect to all City Holders) to cause the exchange of City Common Stock for USA Common Stock pursuant to this Section 5.13 to satisfy the requirements of a tax-free "reorganization" under Section 368(a) of the Code and to report the exchange as such.

5.14 Certain Tax Matters.

(a) Return Filing; Information Sharing.

(i) USA shall prepare and file, or cause to be prepared and filed, in a manner consistent with past practices, with the appropriate governmental authority all Returns, and be liable for

(and indemnify City and TMOL against) any Tax liability arising thereunder, relating to Taxes of TMOL, its subsidiaries or their assets or operations with respect to periods (or any portions thereof) ending on or prior to the Closing Date where such Tax or Tax Return is with respect to a consolidated, combined or unitary Tax including an entity other than TMOL or its subsidiaries.

(ii) USA, Ticket and City agree that they will, and will cause their affiliates to, make available all such information, employees and records of or relating to TMOL as either party may request with respect to matters relating to Taxes (including, without limitation, the right to make copies of such information and records) and will cooperate with respect to all matters relating to Taxes (including, without limitation the filing of Returns, the filing of an amended Return, audits, and proceedings). Unless requested by USA, neither City nor TMOL nor any subsidiary thereof shall file (or permit to be filed) any amended Return with respect to TMOL for any period (or portion thereof) ending on or prior to the Closing Date without obtaining the prior written consent of USA.

(iii) USA shall promptly reimburse City in an amount equal to the net tax benefit to USA, its affiliates, or their successors for the use, on any Return of USA, Ticket or any affiliate thereof, of any deduction, credit, offset, basis or net operating loss or other carryover or other Tax attribute ("TAX ATTRIBUTE") of (a) TMOL or its subsidiaries unless such Tax Attribute arose with respect to a period ending on or prior to the Closing Date, or (b) City, with respect to Tax Attributes or benefits of any period.

(iv) USA and Ticket will indemnify and hold harmless City, TMOL, their subsidiaries and affiliates, and their officers and directors with respect to any Tax (a) for any period whatsoever of USA, Ticket or any affiliate thereof, or any subsidiary thereof (other than City or TMOL or their subsidiaries), or (b) arising out of Treas. Reg. Section 1.1502-6 (or a comparable provision of foreign law).

(v) Notwithstanding any other provision of this Agreement, all transfer, registration, stamp, documentary, sales, use and similar Taxes (including, but not limited to, all applicable real estate transfer or gains Taxes and stock transfer Taxes), and any penalties, interest and additions to such Taxes incurred in connection with this Agreement and the Merger contemplated hereby shall be the responsibility of and be shared equally by USA and City. USA and City shall cooperate in the timely making of all filings, Returns, reports and forms as may be required in connection therewith.

(vi) If any of City, TMOL or any subsidiary or affiliate of the foregoing thereof receives any written notice from any Tax authority proposing any audit or adjustment to any Tax relating to TMOL for which USA or any affiliate thereof may be liable under this Agreement, City or TMOL shall give prompt written notice thereof to USA. In the event USA or Ticket or any affiliate thereof receives notice of Taxes for which City or TMOL may be liable, USA or Ticket or such affiliate shall provide similar notice to City.

(vii) Any tax sharing or tax allocation agreement of which TMOL or any of its subsidiaries is a party, other than an agreement solely between TMOL and its subsidiaries, and not including this Agreement, shall terminate at the time of or prior to Closing.

(b) Tax Covenants. Unless there has been a final determination to the

contrary (or USA and City otherwise agree in writing), USA, Ticket, City and TMOL covenant and agree, for all Tax purposes including all Tax Returns and any Tax controversies, to (and to cause any affiliate or successor to their assets or businesses to) take each of the positions set forth below (and not to take any position inconsistent therewith):

(i) The Merger will qualify as a reorganization described in section 368(a) of the Code.

(ii) None of the consideration in the Merger will be paid or issued for services.

(c) Allocation of Income and Deductions. For purposes of this

Agreement, income, deductions, and other items will be allocated between the final pre-closing Tax period and post-closing Tax period based on an actual closing of the books of the business as of the close of business on the Closing Date, determined in a manner consistent with past practices.

5.15 Certain Employee Benefit Matters. USA, Ticket and/or TMOL, as

applicable, covenant that each TMOL Employee currently participating in a TMOL Pension Plan shall continue to accrue benefits under the TMOL Pension Plans through the Closing Date so long as such Employee continues to be a TMOL Employee. Prior to the Closing Date, USA, Ticket and/or TMOL, as applicable, shall take such action as may be necessary so that, effective as of the Closing Date, (a) TMOL shall cease to be a participating employer in TMOL Pension Plans, (b) each TMOL Employee's account balance under the TMOL Pension Plans shall be fully vested and nonforfeitable and (c) no additional benefits shall accrue for any TMOL Employee under TMOL Pension Plans after the Closing Date. City shall assume no liability or obligations in connection with TMOL Pension Plans. After the Closing Date, USA and/or Ticket shall provide continuation coverage under COBRA or any similar state statute providing for continuation coverage to TMOL employees and their eligible dependents until the earlier of (a) the day TMOL employees are covered by City employee benefit plans that provide employee benefits that are no less favorable than employee benefits provided to City employees generally, or (b) 120 days following the Closing Date. City shall use reasonable efforts to timely provide employee benefits to TMOL Employees that are no less favorable than employee benefits provided to City employees generally. USA and/or Ticket agree to cooperate in all respects with City with regard to the plan-to-plan transfer of the assets of TMOL Pension Plans attributable to TMOL Employees.

5.16 Registration Rights.

(a) In connection with the initial public offering of City's equity securities, City will promptly give notice to each City Holder and will include in such registration under the Securities Act for such offering (and any related qualification under blue sky laws or other compliance), and any related underwriting, all the City Common Stock (subject to cutback as set forth in Section 5.16(b)) specified in a written request or requests made within twenty (20) days after receipt of such written notice from City by any City Holder. In the event of any recapitalization of the City Common Stock, the rights of the City Holders pursuant to this Section 5.16 shall apply to any securities issued in such recapitalization to the City Holders.

(b) The right of any City Holder to registration pursuant to this Section 5.16 shall be conditioned upon such City Holder's participation in such offering and the inclusion of shares of City Common Stock in such registration to the extent provided herein. If any City Holder proposes to distribute its securities through such offering, such City Holder shall (together with City) enter into an underwriting agreement in customary form with the managing underwriter selected for such offering by City. Notwithstanding any other provision of this Section 5.16, if the managing underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriter may limit the City Common Stock to be sold by the City Holders in such offering; provided that no such reduction shall be made with respect to securities being offered by City for its own account unless the number of shares of City Common Stock to be sold by the City Holders in such offering shall be reduced to zero. City shall so advise the City Holders and the number of shares of City Common Stock that may be included in the registration and underwriting shall be allocated among the City Holders in proportion, as nearly as practicable, to the respective amounts of City Common Stock held by the City Holders at the time of filing of the registration statement. To facilitate the allocation of shares in accordance with the above provisions, City or the underwriters may round the number of shares allocated to the City Holders to the nearest 100 shares.

(c) The rights of any City Holder to receive notice and to participate in a registration pursuant to the terms of this Section 5.16 shall terminate at such time as such City Holder could sell all of the City Common Stock held by such City Holder in any one three-month period under the terms of Rule 144(k) under the Securities Act.

(d) City shall pay all expenses related to any offering pursuant to this Section 5.16 (other than underwriting discounts, selling commissions and transfer and stamp taxes for shares of City Common Stock sold by any City Holder and any fees and disbursements of counsel to any City Holder).

(e) City and each City Holder will provide customary indemnification with respect to a registration effected pursuant to this Section 5.16

(f) Each City Holder selling City Common Stock included in any registration effected pursuant to this Section 5.16 shall furnish to City such information, including information regarding such City Holder, the City Common Stock held by them and the distribution proposed, as City may request in writing to enable City to comply with the provisions hereof in connection with any registration, qualification or compliance referred to in this Section 5.16.

5.17 Closing Balance Sheet. USA shall ensure that the current assets of

TMOL as of the close of business on the Closing Date are equal to or greater than the current liabilities of TMOL as of such time (as determined pursuant to GAAP).

5.18 Delivery of Financial Information. Until the earliest to occur of

(X) the exercise of the Put (as such term is defined in Section 5.13 below), (Y) the expiration of the Third Put (as such term is defined in Section 5.13 below), and (Z) the consummation of a Qualified IPO, the Combined Company shall deliver the following information to any holders of greater than one (1%) percent City Common Stock upon their request:

(a) Annual Financial Information. As soon as practicable after the

end of each fiscal year, and in any event within ninety (90) days thereafter, the Combined Company shall deliver consolidated balance sheets of the Combined Company and its subsidiaries, if any, as of the end of such fiscal year, and consolidated statements of income and consolidated statements of cash flows of the Combined Company and its subsidiaries, if any, for such year, prepared in accordance with generally accepted accounting principles consistently applied and setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and signed by the principal financial or accounting officer of the Company.

(b) Quarterly Financial Information. As soon as practicable after the

end of each fiscal quarter (except for the fourth fiscal quarter of each year), and in any event within forty-five (45) days thereafter, the Combined Company shall deliver consolidated balance sheets of the Combined Company and its subsidiaries, if any, as of the end of such quarter, and cash flow statements and consolidated statements of income for each quarter and for the current fiscal year to date, prepared in accordance with generally accepted accounting principles consistently applied, all in reasonable detail and signed, subject to changes resulting from year-end audit adjustments, by the principal financial or accounting officer of the Company.

ARTICLE VI
CONDITIONS TO THE MERGER

6.1 Conditions to Obligations of Each Party to Effect the Merger. The

respective obligations of each party to this Agreement to effect the Merger shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions:

(a) Stockholder Approval. This Agreement shall have been approved and

adopted and the Merger shall have been approved by the stockholders of City by the requisite vote under applicable law and its Certificate of Incorporation and Bylaws.

(b) No Order. No Governmental Entity shall have enacted, issued,

promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger. All waiting periods, if any, under the HSR Act relating to the transactions contemplated hereby will have expired or terminated early.

6.2 Additional Conditions to Obligations of USA, Ticket and TMOL. The

obligation of USA, Ticket and TMOL to consummate and effect the Merger shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions, any of which may be waived, in writing, exclusively by USA:

(a) Representations and Warranties. Each representation and

warranty of City and Merger Sub contained in this Agreement shall be true and correct in all material respects on and as of

the date of this Agreement and on and as of the Closing Date with the same force and effect as if made on and as of the Closing Date except for changes contemplated by this Agreement and for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct in all material respects as of such particular date) (it being understood that, for purposes of determining the accuracy of such representations and warranties that any update of or modification to the City Schedules made or purported to have been made after the date of this Agreement shall be disregarded). USA shall have received a certificate to such effect signed on behalf of City by an authorized officer of City

(b) Agreements and Covenants. Each of City and Merger Sub shall have

performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Closing Date, and USA shall have received a certificate to such effect signed on behalf of City by an authorized officer of City.

(c) Conversion of Preferred Stock. Each outstanding share of

Preferred Stock of City shall have been converted into shares of City Common Stock prior to or concurrently with the Merger..

(d) Termination of Stockholders Agreement. The Stockholders'

Agreement shall have been terminated and there shall be no further rights thereunder of any stockholder (other than Section 6 and Sections 11.2, 11.4, 11.5, 11.6, 11.7, 11.8, 11.9 and 11.11).

6.3 Additional Conditions to the Obligations of City and Merger Sub.

The obligations of City and Merger Sub to consummate and effect the Merger shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions, any of which may be waived, in writing, exclusively by City:

(a) Representations and Warranties. Each representation and warranty

of USA, Ticket or TMOL contained in this Agreement shall be true and correct in all material respects on and as of the date of this Agreement and on and as of the Closing Date with the same force and effect as if made on and as of the Closing Date except for changes contemplated by this Agreement and for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct in all material respects as of such particular date) (it being understood that, for purposes of determining the accuracy of such representations and warranties that any update of or modification to the USA Schedules made or purported to have been made after the date of this Agreement shall be disregarded). City shall have received a certificate to such effect signed on behalf of USA by an authorized officer of USA.

(b) Agreements and Covenants. USA, Ticket and TMOL shall have

performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by them at or prior to the Closing Date, and City shall have received a certificate to such effect signed on behalf of USA by an authorized officer of USA.

(c) Convertible Note. USA shall have delivered \$50,000,000 to City by

wire transfer to the account previously designated by City against delivery by City of the Convertible Note.

(d) TMOL Business Agreement. The TMOL Business Agreement shall have

been duly executed by each party thereto, shall constitute the legally binding and enforceable obligation of each such party, shall be in full force and effect, and City shall have received a certificate to such effect signed on behalf of USA by an authorized officer of USA.

ARTICLE VII
TERMINATION, AMENDMENT AND WAIVER

7.1 Termination. This Agreement may be terminated at any time prior to the

Effective Time, whether before or after the requisite approval of the stockholders of City:

(a) by mutual written consent duly authorized by the Boards of Directors of City and TMOL;

(b) by either TMOL or City if the Merger shall not have been consummated by December 31, 1998 for any reason; provided, however, that the

right to terminate this Agreement under this Section 7.1(b) shall not be available to any party whose action or failure to act has been the principal cause of the failure of the Merger to occur on or before such date and such action or failure to act constitutes a material breach of this Agreement;

(c) by either TMOL or City if a Governmental Entity shall have issued an order, decree or ruling or taken any other action, in any case having the effect of permanently restraining, enjoining or otherwise prohibiting the Merger, which order, decree, ruling or other action is final and nonappealable;

(d) by either TMOL or City if the required approval of the stockholders of City of this Agreement and the Merger shall not have been obtained by reason of the failure to obtain the required vote at a duly called meeting of such stockholders for such purpose (provided that the right to terminate this Agreement under this Section 7.1(d) shall not be available to any party where the failure to obtain stockholder approval shall have been caused by the action or failure to act of such party and such action or failure to act constitutes a material breach by such party of this Agreement (it being understood that any breach by any of USA, Ticket or TMOL shall constitute a breach of TMOL for purposes of this Article VII));

(e) by TMOL, upon a breach of any representation, warranty, covenant or agreement on the part of City set forth in this Agreement, or if any representation or warranty of City shall have become untrue, in either case such that the conditions set forth in Section 6.2(a) or Section 6.2(b) would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become untrue, provided that TMOL may not terminate this

Agreement under this Section 7.1(e) if such inaccuracy in City's representations and warranties or breach by City is curable by City through the exercise of its commercially reasonable efforts within 30 days of notice by TMOL to City of such breach, provided City continues to exercise commercially reasonable efforts to cure such breach (it being understood that TMOL may not terminate this Agreement pursuant to this paragraph (e) if it shall have

materially breached this Agreement or if such breach by City is cured prior to the expiration of such 30 day period); or

(f) by City, upon a breach of any representation, warranty, covenant or agreement on the part of USA, Ticket or TMOL set forth in this Agreement, or if any representation or warranty of USA, Ticket or TMOL shall have become untrue, in either case such that the conditions set forth in Section 6.3(a) or Section 6.3(b) would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become untrue, provided, that

City may not terminate this Agreement under this Section 7.1(f) if such inaccuracy in USA's, Ticket's or TMOL's representations and warranties or breach by USA, Ticket or TMOL is curable by USA, Ticket or TMOL through the exercise of its commercially reasonable efforts within 30 days of notice from City to USA of such breach, provided USA, Ticket and TMOL continue to exercise commercially reasonable efforts to cure such breach (it being understood that City may not terminate this Agreement pursuant to this paragraph (f) if it shall have materially breached this Agreement or if such breach by USA, Ticket or TMOL is cured prior to the expiration of such 30 day period).

7.2 Notice of Termination; Effect of Termination. Any termination of this

Agreement under and pursuant to the terms of Section 7.1 above will be effective immediately upon the delivery of written notice of the terminating party to the other parties hereto. In the event of the termination of this Agreement as provided in Section 7.1, this Agreement shall be of no further force or effect, except (i) as set forth in this Section 7.2, Section 7.3 and Article VIII (miscellaneous), each of which shall survive the termination of this Agreement, and (ii) nothing herein shall relieve any party from liability for any willful breach of this Agreement.

7.3 Fees and Expenses. All fees and expenses incurred in connection with

this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses whether or not the Merger is consummated.

7.4 Amendment. Subject to applicable law, this Agreement may be amended

by the parties hereto at any time prior to the Effective Time by execution of an instrument in writing signed on behalf of each of City and USA and at any time following the Effective Time by execution of an instrument in writing signed on behalf of City and a majority in interest of the City Holders.

7.5 Extension; Waiver. At any time prior to the Effective Time any party

hereto may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. Delay in exercising any right under this Agreement shall not constitute a waiver of such right.

ARTICLE VIII
GENERAL PROVISIONS

8.1 Survival. The covenants contained in this Agreement and the

representations and warranties contained in Sections 3.4(a), 3.4(b) and 3.7(b) of this Agreement shall survive the Effective Time. After the Effective Time, USA shall promptly indemnify (without right of contribution from City, TMOL or the Surviving Corporation) each person or entity (other than USA and any affiliates thereof) who, immediately prior to the Effective Time, was a stockholder of City or held options or warrants to purchase stock of City, and hold them harmless against any loss, loss of value, liability, demand, claim, action or expense which any such person or entity may suffer or become subject to as a result of any breach of Sections 3.4(a), 3.4(b) and 3.7(b) of this Agreement. USA will ensure that each of USA, Ticket and TMOL perform all of their obligations under and pursuant to this Agreement and the TMOL Business Agreement. TMOL will enforce all of its rights under the TMOL Business Agreement.

8.2 Notices. All notices and other communications hereunder shall be in

writing and shall be deemed given if delivered personally or by commercial delivery service, or sent via facsimile (receipt confirmed) to the parties at the following addresses or facsimile numbers (or at such other address or facsimile numbers for a party as shall be specified by like notice):

(a) if to City or Merger Sub, to:

CitySearch, Inc.
790 E. Colorado Blvd., Suite 200
Pasadena, CA 91101
Attention: Douglas M. Mc Pherson, Chief Legal Officer
Telephone No.: (626) 405-0050
Facsimile No.: (626) 405-9929

with a copy to:

Wilson Sonsini Goodrich & Rosati, P.C.
650 Page Mill Road
Palo Alto, California 94304
Attention: Larry W. Sonsini
 John T. Sheridan
 Marty Korman
Telephone No.: (650) 493-9300
Facsimile No.: (650) 493-6811

(b) if to USA, Ticket or TMOL, to:

c/o USA Networks, Inc.
 152 W. 57th St.
 New York, New York 10019
 Attention: General Counsel
 Telephone No.: (212) 314-7322
 Facsimile No.: (212) 314-7329

with a copy to:

Howard, Smith & Levin LLP
 1330 Avenue of the Americas
 New York, New York 10019
 Attention: Scott F. Smith
 Stephen A. Infante
 Telephone No.: (212) 841-1000
 Facsimile No.: (212) 841-1010

8.3 Interpretation; Knowledge.

(a) When a reference is made in this Agreement to Exhibits, such reference shall be to an Exhibit to this Agreement unless otherwise indicated. When a reference is made in this Agreement to Sections, such reference shall be to a Section of this Agreement unless otherwise indicated. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. When reference is made herein to "the business of" an entity, such reference shall be deemed to include the business of all direct and indirect subsidiaries of such entity.

(b) For purposes of this Agreement the term "knowledge" means with respect to a party hereto, with respect to any matter in question, that any of the chief executive officer, chief operating officer, president, chief financial officer, general counsel or controller of such party, has actual knowledge of such matter or would have knowledge of such matter following due investigation.

(c) For purposes of this Agreement, the term "subsidiary" of any entity means any other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are directly or indirectly owned or controlled, directly or indirectly, by such entity.

(d) For purposes of this Agreement, the term "USA Material Effect" means (i) any change, event or effect that is materially adverse to the business, financial condition or results of operations of USA and its subsidiaries, taken as a whole, or materially affects USA's ability to perform its obligations under this Agreement or the TMOL Business Agreement, (ii) any change, event or effect

that is materially adverse to the business, financial condition or results of operations of Ticket and its subsidiaries, taken as a whole, or materially affects Ticket's ability to perform its obligations under this Agreement or the TMOL Business Agreement, (iii) any change, event or effect that is material to the business, financial condition, results of operations or prospects of TMOL or to TMOL's ability to perform its obligations under this Agreement or the TMOL Business Agreement or (iv) any change, event or effect that is material to the Online Revenue Rights.

(e) For purposes of this Agreement, the term "City Material Effect" means any change, event or effect that is material to the business, financial condition, results of operations or prospects of City or to City's ability to perform its obligations under this Agreement..

(f) For purposes of this Agreement, the term "affiliate" shall have the meaning set forth in Rule 144(a)(1) promulgated under the Securities Act.

8.4 Counterparts. This Agreement may be executed in one or more

counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart.

8.5 Entire Agreement; Third Party Beneficiaries. This Agreement and the

documents and instruments and other agreements among the parties hereto as contemplated by or referred to herein, including the USA Schedules and the City Schedules (a) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof (including, without limitation, the Original Merger Agreement), it being understood that Sections 5.4(a) and 5.4(b) and the last sentence of Section 5.8 shall survive any termination of this Agreement; and (b) are not intended to confer upon any other person any rights or remedies hereunder, except that the stockholders of City (and holders of options or warrants to purchase stock of City) immediately prior to the Effective Time are intended to be third party beneficiaries hereof and may enforce this Agreement (including, without limitation, Article II and Sections 5.11, 5.12, 5.13, 5.16 and 8.1 hereof) as if they were parties hereto).

8.6 Severability. In the event that any provision of this Agreement or

the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

8.7 Other Remedies; Specific Performance. Except as otherwise provided

herein, any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not

performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to seek an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

8.8 Governing Law. This Agreement shall be governed by and construed in

 accordance with the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of law thereof. Each of the parties hereto irrevocably consents to the jurisdiction of any state or federal court within the State of Delaware in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of Delaware for such persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction and such process.

8.9 Rules of Construction. The parties hereto agree that they have been

 represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

8.10 Assignment. No party may assign either this Agreement or any of its

 rights, interests, or obligations hereunder without the prior written approval of the other parties, provided that City Holders may assign their rights hereunder to other City Holders. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

8.11 Waiver of Jury Trial. EACH OF USA, CITY, TMOL, TICKET AND MERGER SUB

 HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ACTIONS OF USA, CITY, TMOL OR MERGER SUB IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE AND ENFORCEMENT HEREOF.

8.12 Majority in Interest of City Holders. For purposes of this Agreement,

 except as otherwise required by applicable law, a majority in interest of the City Holders shall be determined on a one-share- one-vote basis regardless of the voting rights of the shares of capital stock then held by the City Holders.

* * * *

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized respective officers as of the date first written above.

CITYSEARCH, INC.

By: /s/ Thomas H. Layton

Name: Thomas H. Layton

Title: President

USA NETWORKS, INC.

By: /s/ Thomas J. Kuhn

Name: Thomas J. Kuhn

Title: Senior Vice President

and General Counsel

TICKETMASTER GROUP, INC.

By: /s/ Eugene L. Cobuzzi

Name: Eugene L. Cobuzzi

Title: Chief Operating Officer

TICKETMASTER CORPORATION

By: Eugene L. Cobuzzi

Name: Eugene L. Cobuzzi

Title: Chief Operating Officer

TICKETMASTER MULTIMEDIA HOLDINGS, INC.

By: /s/ Eugene L. Cobuzzi

Name: Eugene L. Cobuzzi

Title: Executive Vice President

TIBERIUS, INC.

By: /s/ Thomas H. Layton

Name: Thomas H. Layton

Title: President

* * * AMENDED AND RESTATED REORGANIZATION AGREEMENT * * *

EXHIBIT 11

Statement Re: Computation of Per Share Earnings

The following table sets forth the computation of Basic and Diluted EPS. All share numbers have been adjusted to reflect the Company's two-for-one stock split to holders of record as of the close of business on March 12, 1998:

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|---------------------------------------|----------|------------------------------------|----------|
| | 1998 | 1997 | 1998 | 1997 |
| | (In thousands, except per share data) | | | |
| Net earnings (loss) | \$ (4,849) | \$ 3,516 | \$ 26,041 | \$ 9,758 |
| Effect of converting LLC shares into common stock | -- | -- | 13,742 | -- |
| Adjusted net earnings (loss) | \$ (4,849) | \$ 3,516 | \$ 39,783 | \$ 9,758 |
| Weighted average shares | 155,017 | 110,020 | 138,355 | 102,016 |
| Effect of dilutive securities Stock options and convertible LLC shares | -- | 8,974 | 141,887 | 6,158 |
| Adjusted weighted average shares | 155,017 | 118,994 | 280,242 | 108,174 |
| Basic earnings (loss) per share | \$ (.03) | \$.03 | \$.19 | \$.10 |
| Diluted earnings (loss) per share | \$ (.03) | \$.03 | \$.14 | \$.09 |

5
1,000

3-MOS
DEC-31-1998
JUN-30-1998
SEP-30-1998
292,231
0
286,237
0
445,425
1,087,988
365,428
152,238
8,266,957
1,073,561
748,101
0
0
1,552
2,455,212
8,266,957
640,514
640,514
346,149
346,149
244,363
0
25,875
34,019
16,619
(4,849)
0
0
0
(4,849)
(.03)
(.03)

5
1,000

9-MOS
DEC-31-1998
JAN-01-1998
SEP-30-1998
292,231
0
286,237
0
445,425
1,087,988
365,428
152,238
8,266,957
1,073,561
748,101
0
0
1,552
2,455,212
8,266,957
1,867,017
1,867,017
945,731
945,731
761,040
0
94,704
141,829
72,792
26,041
0
0
0
26,041
.19
.14

1,000

| | |
|-------------|-----------|
| 3-MOS | |
| DEC-31-1997 | |
| JUN-30-1997 | |
| SEP-30-1997 | |
| | 106,121 |
| | 0 |
| | 98,364 |
| | 0 |
| | 155,844 |
| 407,424 | |
| | 259,953 |
| | 113,433 |
| 2,637,305 | |
| 351,235 | |
| | 428,754 |
| 0 | |
| | 0 |
| | 1,116 |
| | 1,440,422 |
| 2,637,305 | |
| | 326,256 |
| 326,256 | |
| | 156,041 |
| | 156,041 |
| 147,530 | |
| 0 | |
| 8,611 | |
| 12,511 | |
| | 9,078 |
| 3,516 | |
| | 0 |
| | 0 |
| | 0 |
| | 3,516 |
| | .03 |
| | .03 |

1,000

| | |
|-----------|-------------|
| 9-MOS | |
| | DEC-31-1997 |
| | JAN-1-1997 |
| | SEP-30-1997 |
| | 106,121 |
| | 0 |
| | 98,364 |
| | 0 |
| | 155,844 |
| | 407,424 |
| | 259,953 |
| | 113,433 |
| | 2,637,305 |
| 351,235 | |
| | 428,754 |
| 0 | |
| | 0 |
| | 1,116 |
| 2,637,305 | 1,440,422 |
| | 871,493 |
| 871,493 | |
| | 464,159 |
| | 464,159 |
| 340,510 | |
| 0 | |
| 22,101 | |
| | 39,413 |
| | 29,753 |
| 9,758 | |
| | 0 |
| | 0 |
| | 0 |
| | 9,758 |
| | .10 |
| | .09 |