USA NETWORKS INC
Form 10-K405
April 01, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 1, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

USA NETWORKS, INC.

(Exact name of registrant as specified in its charter)

COMMISSION FILE NO. 0-20570

DELAWARE	59-2712887
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

152 WEST 57TH STREET, NEW YORK, NEW YORK, 10019
(Address of Registrant's principal executive offices)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
Common Stock, $.01 par value
Warrants to acquire Common Stock

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

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

Common Stock	340,633,475
Class B Common Stock	63,033,452
Total	403,666,927
Common Stock issuable upon exchange of outstanding exchangeable subsidiary equity	361,152,845
Total outstanding Common Stock, assuming full exchange of Class B Common Stock and exchangeable subsidiary equity	764,819,772

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

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

DOCUMENTS INCORPORATED BY REFERENCE:

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

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PART I

ITEM 1. BUSINESS

GENERAL

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

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

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

OPERATING BUSINESSES

- HSN--U.S., consisting primarily of the HSN and America's Store television networks and HSN.com.

- TICKETING OPERATIONS, consisting primarily of Ticketmaster and Ticketmaster.com, which provide offline and online automated ticketing services.

- EXPEDIA, a leading provider of travel planning services.

- HOTEL RESERVATIONS NETWORK, a leading consolidator of hotel rooms for resale in the consumer market.

- PRECISION RESPONSE CORPORATION, a leader in outsourced consumer care for both large corporations and high-growth Internet-focused companies.

- MATCH.COM, a leading online personals business.

EMERGING BUSINESSES

- HSN--INTERNATIONAL AND OTHER, consisting primarily of HSN's international and Spanish-language electronic retailing operations.

- CITYSEARCH AND RELATED, which operates a network of local city guide sites that offer primarily original local content for major cities in the U.S. and abroad, as well as practical transactional tools to get things done.

- USA ELECTRONIC COMMERCE SOLUTIONS, the Company's electronic commerce solutions business.

- STYLECLICK, a provider of e-commerce services and technologies.

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CORPORATE STRUCTURE, EQUITY OWNERSHIP AND VOTING CONTROL

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

EQUITY OWNERSHIP. As of February 15, 2002, Liberty, through companies owned by Liberty and Mr. Diller, owned 7.3% of USA's outstanding common stock and 78.7% of USA's outstanding Class B common stock and Vivendi (through Universal) owned approximately 5.3% of USA's outstanding common stock and 21.3% of USA's Class B common stock. Pro forma for the Vivendi Transaction and after giving effect to the exchange of all of Liberty's Holdco shares, Liberty, through companies owned by Liberty and Mr. Diller, would own approximately 2.0% of USA's outstanding common stock and 78.7% of USA's outstanding Class B common stock, Vivendi (through subsidiaries) would own approximately 12.4% of USA's outstanding common stock and 21.3% of USA's outstanding Class B common stock and the public shareholders, including Mr. Diller and other USA officers and directors, would own approximately 85.6% of USA's common stock. Following the Vivendi Transaction, Vivendi will own 43.2 million shares of USA common stock and 13.4 million shares of Class B common stock (for a total of 56.6 million USA shares) and will be required to hold 56.6 million USA shares to satisfy its put and call obligations relating to the Class B preferred interest in VUE that will be issued to USA in the Vivendi Transaction described below. See "Corporate History--Certain Entertainment Group Transactions--Vivendi Transaction." The terms of the Class B preferred interest provide that it is puttable and callable commencing on the 20th anniversary of the completion of the Vivendi Transaction at its then accreted face value for up to 56.6 million USA common and Class B shares held by Vivendi. If USA's share price exceeds $40.82 per share at the time of the put or call, fewer than 56.6 million shares would be cancelled. At the election of Vivendi, USA common shares (but not the USA Class B common shares) to be received by USA pursuant to the put or call can be substituted with cash equal to the market value of those shares.

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

CORPORATE HISTORY

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

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

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

CERTAIN INTERACTIVE GROUP TRANSACTIONS

TICKETMASTER TRANSACTIONS

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

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

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

EXPEDIA TRANSACTION

On February 4, 2002, USA completed its acquisition of a controlling interest in Expedia, Inc. ("Expedia") through a merger of one of its subsidiaries with and into Expedia. Immediately following the merger, USA owned all of the outstanding shares of Expedia Class B common stock, representing approximately 64.2% of Expedia's then outstanding shares, and 94.9% of the voting interest in Expedia. On February 20, 2002, USA acquired 936,815 shares of Expedia Class A common stock, increasing USA's ownership to approximately 64.6% of Expedia's then outstanding shares, with USA's voting percentage remaining at 94.9%. In the merger, USA issued to former holders of Expedia common stock who elected to receive USA securities an aggregate of 20.6 million shares of USA common stock, 13.1 million shares of $50 face value 1.99% cumulative convertible preferred stock of USA and warrants to acquire 14.6 million shares of USA common stock at an exercise price of $35.10 per share. Expedia continues to be traded on Nasdaq under the symbol "EXPE," the USA cumulative preferred stock trades over the counter under the symbol "USAIP" and the USA warrants trade on Nasdaq under the symbol "USAIW."

Pursuant to the terms of the USA/Expedia transaction documents, Microsoft Corporation elected to exchange all of its Expedia common stock (representing approximately 63% of Expedia's common stock) for USA securities in the merger. Expedia shareholders who did not receive USA securities in the transaction retained their Expedia shares and received for each Expedia share held 0.1920 of a new Expedia warrant.

HOTEL RESERVATIONS NETWORK TRANSACTION

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

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

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

PRECISION RESPONSE CORPORATION TRANSACTION

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

STYLECLICK TRANSACTION

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

UNIVISION TRANSACTION

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

CERTAIN ENTERTAINMENT GROUP TRANSACTIONS

UNIVERSAL TRANSACTION

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

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OCTOBER FILMS/PFE TRANSACTION

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

VIVENDI TRANSACTION

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

In connection with the Vivendi Transaction, USA and its subsidiaries will receive the following at the closing of the transactions: (i) approximately $1.62 billion in cash, debt-financed by the joint venture, subject to tax-deferred treatment for a 15-year period; (ii) a $750 million face value Class A preferred interest in the joint venture, with a 5% annual paid-in-kind dividend and a 20-year term, to be settled in cash at its then face value at maturity; (iii) a $1.75 billion face value Class B preferred interest in the joint venture, with a 1.4% annual paid-in-kind dividend, a 3.6% annual cash dividend, callable and puttable after 20 years, to be settled by Vivendi at its then face value with a maximum of approximately 43.2 million shares of USA common stock and 13.4 million shares of USA Class B common stock (for a total of 56.6 million USA common shares), provided that Vivendi may substitute cash in lieu of shares of USA common stock (but not USA Class B common stock), at its election (as described above under "Corporate Structure, Equity Ownership and Voting Control--Equity Ownership"); (iv) a 5.44% common interest in VUE, generally callable by Universal after five years and puttable by USA after eight years, which may be settled in either Vivendi stock or cash, at Universal's election; and (v) cancellation of all of Vivendi's USANi LLC interests currently exchangeable into USA common shares, including USANi LLC interests obtained from Liberty in a related transaction (see immediately below).

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

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

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FORWARD LOOKING STATEMENTS

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

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

- MATERIAL ADVERSE CHANGES IN ECONOMIC CONDITIONS GENERALLY OR IN OUR MARKETS;

- FUTURE REGULATORY AND LEGISLATIVE ACTIONS AND CONDITIONS IN OUR OPERATING AREAS;

- COMPETITION FROM OTHERS;

- SUCCESSFUL INTEGRATION OF OUR DIVISIONS' MANAGEMENT STRUCTURES;

- PRODUCT DEMAND AND MARKET ACCEPTANCE;

- THE ABILITY TO PROTECT PROPRIETARY INFORMATION AND TECHNOLOGY OR TO OBTAIN NECESSARY LICENSES ON COMMERCIALLY REASONABLE TERMS;

- THE ABILITY TO EXPAND INTO AND SUCCESSFULLY OPERATE IN FOREIGN MARKETS;

- OBTAINING AND RETAINING KEY EXECUTIVES AND EMPLOYEES; AND

- OTHER RISKS AND UNCERTAINTIES AS MAY BE DETAILED FROM TIME TO TIME IN OUR PUBLIC ANNOUNCEMENTS AND FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION.

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

DESCRIPTION OF BUSINESSES

USA INTERACTIVE GROUP

HOME SHOPPING NETWORK

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

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

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

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

	CABLE(1)(2)	BROADCAST(1)(3)	OT
	(IN THOUSANDS OF HOUSEHO		
Households--December 31, 2000	65,580	9,860	1,
Net additions/(deletions)	7,554	(1,208)	(
Households--December 31, 2001	73,134	8,652	
(Deletions) after year end due to Disengagement(4)	(1,880)	(7,253)	
Households January 14, 2002	71,254	1,399	

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(1) Households capable of receiving both broadcast and cable transmissions are included under cable and therefore are excluded from broadcast to present unduplicated household reach.

(2) Cable households included 14.7 million and 11.6 million direct broadcast satellite households at December 31, 2001 and 2000, respectively, and therefore are excluded from other.

(3) See "Broadcast Television Distribution" below for a discussion of the disaffiliation of certain stations from HSN in 2001 and 2002.

(4) Households lost as a result of the conversion of the majority owned stations sold to Univision by USA, from HSN programming to Univision programming. HSN believes that the majority of the lost cable households will be recaptured over the next 12 to 18 months. See "Broadcast Television Distribution" below.

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

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

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

CUSTOMER SERVICE AND RETURN POLICY

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

DISTRIBUTION, DATA PROCESSING AND TELECOMMUNICATIONS

Home Shopping Network's fulfillment subsidiaries store, service and ship merchandise from warehouses located in Salem, Virginia, Waterloo, Iowa and in a fulfillment facility in Fontana, California that was opened in 2001.

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

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

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

PRODUCT PURCHASING AND LIQUIDATION

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

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

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

TRANSMISSION AND PROGRAMMING

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

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

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

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

Home Shopping Network's access to two transponders pursuant to long-term agreements would enable it to continue transmission of Home Shopping Network programming should either one of the satellites fail. Although Home Shopping Network believes it is taking every reasonable measure to ensure its continued satellite transmission capability, there can be no assurance that termination or interruption of satellite transmissions will not occur. Such a termination or interruption of service by one or both of these satellites could have a material adverse effect on the operations and financial condition of USA.

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

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

CABLE TELEVISION DISTRIBUTION

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

BROADCAST TELEVISION DISTRIBUTION

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

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

As noted in the Company's previous filings, the majority of the USA stations sold to Univision are located in the largest markets in the country and aired HSN on a 24-hour basis. Home Shopping Network entered into agreements with major cable operators in the aforementioned markets under which those cable operators will transition HSN from broadcast to satellite feed upon disaffiliation. Home Shopping Network expects that it will successfully manage the process of disaffiliation. A majority of HSN customers in these markets who receive HSN only through over-the-air broadcast television will not be able to receive HSN unless they subscribe to a cable or satellite service that offers HSN. As a result of switching these markets directly to cable carriage, HSN lost approximately 12 million homes and accordingly, HSN's operating results have been and will be affected. Fortunately, sales from broadcast only homes are much lower than sales from cable homes. As a result, HSN's losses attributable to disengagement are expected to be limited. HSN anticipates losing sales, which translates on a pro forma basis for 2001, of $108 million and Adjusted EBITDA (as defined below in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and which USA previously referred to as "EBITDA") of $15 million. These anticipated losses are consistent with previous disclosures, in which it was stated that disengagement losses would equal approximately 6% of HSN's sales and Adjusted EBITDA. In addition, in order to effectively transfer HSN's distribution to cable (which has been accomplished), USA will incur charges of approximately $100 million in the form of payments to cable operators and related marketing expenses. In effect, this approximately $100 million payment will reduce USA's pre-tax proceeds from the Univision transaction from $1.1 billion to approximately $1 billion. These disengagement costs are excluded from Adjusted EBITDA. Approximately $4.1 million of these costs were incurred in 2001 and $35.9 million are expected to be incurred in 2002. USA believes that its disengagement costs increased to the higher end of USA's anticipated range of costs, since USA was required to achieve a certain portion of disengagement after the Univision announcement and with specified end-dates for continuing broadcast distribution.

DIRECT BROADCAST SATELLITE DISTRIBUTION

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

INTERNATIONAL HOME SHOPPING NETWORK VENTURES

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

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

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

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

As of December 31, 2001, Home Shopping Europe--Italy owned 100% of the equity of an entity formerly known as Vallau Italia Promomarket ("VIP") and now called Home Shopping Europe Broadcasting S.p.A. that operates an Italian national broadcast network. VIP had applied for a license to operate a national broadcast network in Italy that was denied by the Italian authorities in May 2000. However, an appeal has been filed and a stay of the government's order issued until the decision to deny the license is reviewed. The stay of the order denying the license allows Home Shopping Europe Broadcasting S.p.A. to continue broadcasting until the appeal is heard and a decision rendered or the stay is dismissed or vacated. There can still be no assurance that Home Shopping Europe Broadcasting S.p.A. will be granted a license in Italy. As of the end of 2001, Home Shopping Europe--Italy was broadcasting 24 hours a day, seven days a week with 11 hours of live programming each day. In the event a national broadcast license or authorization is not granted after the above-mentioned litigation, Home Shopping Europe--Italy would be required to seek alternative means of distributing its programming. Currently, there are limited available means of distributing television programming on a nationwide basis and there can be no assurance that alternative means of distribution can be secured.

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

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

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

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

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

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

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

HSN.COM

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

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

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

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

TICKETING

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

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

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

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

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

Ticketmaster also has expanded its ticket distribution capabilities through the continued development of the ticketmaster.com website and related international websites, which are designed to promote ticket sales for live events and disseminate event information. Ticketmaster has experienced significant growth in ticket sales through its websites in recent years and this trend is expected to continue during the next several fiscal years. For the year ended December 31, 2001, online ticket sales through ticketmaster.com and related websites accounted for approximately 32.1% of Ticketmaster's ticketing business, with ticket sales of approximately 27.8 million tickets having a gross dollar value of over $1.3 billion.

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

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

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

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

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

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

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

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

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

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

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

TM VISTA is a Richmond, Virginia-based visitor management software developer and offline and online ticketing company. In 2001, TM VISTA changed its name from 2b Technology to reflect the focus on its core software product, the VISTA ticketing system. TM VISTA targets venues such as museums, cultural institutions and historic sites through its websites tmvista.com and museumtix.com. Representative clients include the Guggenheim Museum and the Los Angeles County Art Museum.

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

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

EXPEDIA

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

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

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

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

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

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

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

HOTEL RESERVATIONS

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

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

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

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

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

OTHER TRAVEL INTERESTS

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

TELESERVICES

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

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

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

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

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

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

PRC's outbound services traditionally included conducting customer satisfaction and preference surveys and cross-selling client products, as well as providing proactive customer management with the goal of increased sales and enhanced customer retention. The acquisitions of ADT and Hancock Information

Group have added more proactive service calling to PRC's suite of outbound services. Both of these companies specialize in enhancing the sales of its clients' products and services through the use of outbound calling.

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

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

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

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

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

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

MATCH.COM

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

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

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

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

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

CITYSEARCH AND RELATED

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

Ticketmaster has citysearch.com sites in 106 cities in the United States, 103 of which are owned and operated by Ticketmaster and the remaining three of which are partner-led. During 2001, Ticketmaster reduced the number of domestic markets in which Ticketmaster maintains local sales and content staff for from

33 to 15, reflecting a realignment of the city guide focus to a more regionally-based structure. During 2001, Ticketmaster also increased the number of its partner-led international citysearch.com sites from 21 to 43. Ticketmaster's international media partners bring capital, brand recognition, promotional strength and local knowledge to their city guides and allow Ticketmaster to build out its international network of sites faster than it could solely through owned and operated sites.

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

City guide revenues are generated through the sale of online advertising, both local and national, product licensing and consulting services and to a smaller extent, transaction fees from affiliate partners. Local advertising revenues are derived primarily from sale of self-enrollment enhanced listings in search results, in context advertising, targeted electronic mail promotions and targeted sponsorship packages. In addition, while becoming a smaller part of the total revenue stream, Citysearch continues to generate local advertising income from Web site development, hosting and placement in Citysearch's directory listings.

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

USA ELECTRONIC COMMERCE SOLUTIONS

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

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

STYLECLICK

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

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

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

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

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

In 2001, Styleclick began to focus on e-commerce services and technology while eliminating its online retail business. During this transition, Styleclick continued to incur significant net losses from continuing operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Styleclick is considering its options with respect to the situation.

USA ENTERTAINMENT GROUP

CABLE AND STUDIOS

USA CABLE

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

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

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

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

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

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

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

USA Network and Sci Fi Channel typically enter into long-term agreements for their major off-network series programming. Their original series commitments usually start with less than a full year's commitment (generally, a pilot episode), but contain options for further production over several years. These original productions will include specials, series, and made-for-television movies. USA Network (and to a lesser extent, Sci Fi Channel) acquires theatrical films in both their "network" windows and "pre-syndication" windows. Under these arrangements, the acquisition of such rights is often concluded many years before the actual exhibition of the films begins on the network. Each network's original films start production less than a year prior to their initial exhibition. Both networks typically obtain the right to exhibit both their acquired theatrical films and original films numerous times over multiple year periods.

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

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

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

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

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

USA Cable's control of two different transponders on each of two different satellites would enable it to continue transmission of USA Network and Sci Fi

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

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

STUDIOS USA

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

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

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

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

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

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

product. Programming consists of various weekly series, including the returning productions LAW & ORDER, LAW & ORDER: SPECIAL VICTIMS UNIT, THE DISTRICT, two new series from LAW & ORDER creator Dick Wolf, entitled LAW & ORDER: CRIMINAL INTENT and CRIME & PUNISHMENT on NBC and THE AGENCY on CBS. In the initial telecast season, the network license provides for the production of a minimum number of episodes, with the network having the option to order additional episodes for both the current and future television seasons. The success of any one series may be influenced by the time period in which the network airs the series, the strength of the programs against which it competes, promotion of the series by the network and the overall commitment of the network to the series.

Generally, network licenses give the networks the exclusive right to broadcast new episodes of a given series for a period of time, generally from four to seven years and sometimes with further options thereafter. Recently, series produced by Studios USA have been distributed on a "dual platform" basis. In the case of LAW & ORDER: SPECIAL VICTIMS UNIT and LAW & ORDER: CRIMINAL INTENT, for example, the USA Network shares the initial exhibition "window" with

NBC. Studios USA also produces television film product that is initially syndicated directly to independent television stations for airing throughout the broadcast day and to network affiliated stations for non-primetime airing.

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

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

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

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

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

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

FILMED ENTERTAINMENT

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

REGULATION

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

TELEPHONE SALES REGULATION

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

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

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

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

In addition to permitting the FTC, private individuals and state attorneys general to seek both injunctive and monetary damages for violation of the FTC's Telemarketing Sales Rule, the new rules, like the old rules, would not prohibit state attorneys general from also seeking remedies under state law.

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

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

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

REGULATION OF THE INTERNET

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

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

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

PRIVACY. Customers provide USA's various businesses with personally identifiable information (PII) that has been specifically and voluntarily given. PII includes information that can identify a customer as a specific individual, such as name, phone number, or e-mail address. This information is used primarily for the purpose of responding to and fulfilling customer requests for the products and services offered by USA's subsidiaries. USA cannot