USA NETWORKS INC
Form S-4
August 22, 2001

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 22, 2001
REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

USA NETWORKS, INC.
(Exact name of Registrant as Specified in its Charter)

DELAWARE	4833	59-2712887
(State or other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

152 WEST 57TH STREET
NEW YORK, NEW YORK, 10019
(212) 314-7300
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

JULIUS GENACHOWSKI, ESQ.
SENIOR VICE PRESIDENT AND GENERAL COUNSEL
USA NETWORKS, INC., 152 WEST 57TH STREET
NEW YORK, NEW YORK 10019 (212) 314-7300
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

WITH COPIES TO:

PETER D. LYONS, ESQ.	PAMELA S. SEYMON, ESQ.	RICHARD B. DODD, ESQ.
Shearman & Sterling	Wachtell, Lipton, Rosen & Katz	Preston Gates & Ellis LLP
555 California Street, Suite 2000	51 West 52nd Street	701 Fifth Avenue, Suite 5000
San Francisco, California 94104	New York, New York 10019-6150	Seattle, Washington 98104
(415) 616-1100	(212) 403-1000	(206) 623-7580

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this registration statement becomes effective and all other conditions to the acquisition of a controlling interest in Expedia, Inc. by the Registrant pursuant to the agreement and plan of recapitalization and merger described in the enclosed joint prospectus/proxy statement have been satisfied or waived.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. / /

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED(1)	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSE AGG OFFERIN
Common Stock, $0.01 par value................	54,247,938(2)	N/A	$1,476
Convertible Redeemable Preferred Stock, $0.01 par value..................................	13,125,000	N/A	N/
Warrants to purchase one share of Common Stock......................................	16,985,000	N/A	N/
Common Stock, $0.01 par value................	16,985,000(6)	$35.10	$596,

(1) This registration statement relates to securities of the Registrant issuable to holders of up to 37,500,000 shares of Class B common stock, par value $.01 per share, of Expedia, Inc., a Washington corporation ("Expedia"), in the proposed merger of a wholly owned subsidiary of the Registrant with and into Expedia.
(2) The number of shares of common stock, par value $.01 per share, of the Registrant ("USAi common stock") to be registered pursuant to this Registration Statement is based on the maximum number of shares of USAi common stock issuable to stockholders of Expedia in the merger, including those shares issuable upon the conversion or exercise of the preferred stock of the Registrant.
(3) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(f)(1) and 457(c) under the Securities Act of 1933, as amended (the "Securities Act"), based on the number of shares of common stock, par value $.01 per share, of Expedia to be exchanged in the merger described herein (37,500,000 shares) multiplied by $39.365, the average of the high and low prices of such stock as reported on the Nasdaq National Market on August 15, 2001.
(4) No consideration will be received by the Registrant upon the conversion of the preferred stock into common stock in connection with the exercise of the conversion right.
(5) The registration fee for the warrants is included in the registration fee for the common stock to be issued upon their exercise as set forth below.
(6) Maximum number of shares of common stock, par value $0.01 per share, of the Registrant to be issued upon exercise of the warrants being offered in the exchange offer.
(7) Calculated by multiplying 0.00025 by the proposed maximum aggregate offering price.
(8) A fee of $369,047 is being paid simultaneously by Expedia in respect of the

37,500,000 shares of Expedia shares being acquired by the Registrant in this transaction. Pursuant to Rule 457(b) under the Securities Act of 1933, as amended, such fee is being credited against the registration fee.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

SUBJECT TO COMPLETION--DATED AUGUST 22, 2001

[LOGO]

, 2001

Dear Shareholder:

Your Board of Directors, as well as the Boards of Directors of USA Networks, Inc. and Microsoft Corporation, have approved the acquisition of a controlling interest in Expedia, Inc. by USA, a media and electronic commerce company. The acquisition is structured as a merger of a wholly owned subsidiary of USA into Expedia, with Expedia surviving as a public company controlled by USA.

Under the terms of the merger agreement, you will have the choice of either (1) retaining your shares of Expedia common stock and in addition receiving warrants to acquire Expedia common stock, or (2) exchanging your shares of Expedia common stock for a package of USA securities consisting of USA common stock, USA convertible redeemable preferred stock and warrants to acquire USA common stock, subject to proration as we describe in this document. Following the merger, Expedia will also own various travel and media-related assets contributed by USA that are described in further detail in this document.

Before we can proceed with the merger and the other related transactions described below, at the annual meeting the holders of a majority of the outstanding shares of Expedia common stock must vote in favor of the merger agreement as well as each of the other proposals relating to the transactions being presented to Expedia shareholders. Please note that Microsoft, which owns 33,722,710 shares, or approximately 67%, of Expedia's common stock, has granted to USA an irrevocable proxy to vote in favor of each of the proposals relating to the transactions to be presented at the annual meeting. The vote of Microsoft's shares is sufficient to ensure approval of all these matters. Microsoft has also agreed to elect to receive USA securities in exchange for all of its Expedia shares, subject to proration in the event that shareholders holding more than 37,500,000 shares of Expedia common stock elect to receive USA securities. Microsoft's decision to elect to receive the USA securities in the merger was based on its own financial needs, goals and situation. Microsoft's election is not a recommendation of the suitability of the USA securities for any other person or a recommendation concerning the investment merits of the USA securities in comparison to Expedia securities.

Expedia common stock is traded on Nasdaq under the symbol "EXPE" and USA common stock is traded on Nasdaq under the symbol "USAI." Shares of USA preferred stock, warrants to acquire USA common stock and warrants to acquire Expedia common stock are expected to be listed on   .

YOUR BOARD OF DIRECTORS, WITH ONE DIRECTOR EXCUSED, UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR EACH OF THE PROPOSALS RELATING TO THE TRANSACTIONS BEING PRESENTED AT THE ANNUAL MEETING BUT MAKES NO RECOMMENDATION AS TO WHETHER YOU SHOULD ELECT TO RECEIVE THE PACKAGE OF USA SECURITIES IN THE MERGER.

Whether or not you attend the annual meeting, it is important that your shares be represented and voted at the meeting. Therefore, I urge you to sign, date and promptly return the enclosed proxy in the enclosed postage-paid envelope. Sending in your proxy will not prevent you from voting your shares at the meeting in person if you so desire, as your proxy is revocable at your option.

Sincerely,

/s/ Richard N. Barton

Richard N. Barton
CHIEF EXECUTIVE OFFICER

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED ANY OF THE USA SECURITIES OR EXPEDIA SECURITIES TO BE ISSUED IN THE RECAPITALIZATION AND/OR MERGER, OR DETERMINED IF THIS JOINT PROSPECTUS/PROXY STATEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THIS JOINT PROSPECTUS/PROXY STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE ILLEGAL.

WE URGE YOU TO CONSIDER CAREFULLY THE RISK FACTORS BEGINNING ON PAGE 19 OF THIS JOINT PROSPECTUS/PROXY STATEMENT.

The date of this joint prospectus/proxy statement is   , 2001. It is first being mailed to Expedia shareholders on or about   , 2001.

HOW TO OBTAIN ADDITIONAL INFORMATION

THIS JOINT PROSPECTUS/PROXY STATEMENT INCORPORATES IMPORTANT BUSINESS AND FINANCIAL INFORMATION ABOUT USA AND EXPEDIA THAT IS NOT INCLUDED IN OR DELIVERED WITH THIS DOCUMENT. THIS INFORMATION IS DESCRIBED UNDER "WHERE YOU CAN FIND MORE INFORMATION" ON PAGE 17. YOU CAN OBTAIN FREE COPIES OF THIS INFORMATION FROM USA, EXPEDIA OR THE PROXY SOLICITATOR BY WRITING OR CALLING:

FOR USA DOCUMENTS:	FOR EXPEDIA DOCUMENTS:
USA Networks, Inc. 152 West 57th Street New York, New York 10019 Attention: Investor Relations Telephone: (212) 314-7300	Expedia, Inc. 13810 SE Eastgate Way, Suite 400 Bellevue, Washington 98005 Attention: Investor Relations Telephone: (425) 564-7233

or

FOR USA AND/OR EXPEDIA DOCUMENTS:

[LOGO]

156 Fifth Avenue
New York, NY 10010
(212) 929-5500 (collect)

(800) 322-2885 (toll-free)

IF YOU WOULD LIKE TO REQUEST ANY DOCUMENTS, PLEASE DO SO BY , 2001, IN ORDER TO RECEIVE THEM BEFORE THE ANNUAL MEETING.

EXPEDIA, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON , 2001

An annual meeting of shareholders of Expedia, Inc., a Washington corporation, will be held at a.m., local time, on , 2001 at , , , , for the following purposes:

1. To consider and vote on a proposal to approve the Amended and Restated Agreement and Plan of Recapitalization and Merger, dated as of July 15, 2001, among USA Networks, Inc., Expedia, Taipei, Inc., a wholly owned subsidiary of USA, Microsoft Corporation and Microsoft E-Holdings, Inc., a wholly owned subsidiary of Microsoft (which we refer to in this document as the "MERGER AGREEMENT"), and the transactions contemplated thereby. Under the terms of the merger agreement, among other things:

   - USA will contribute to Taipei travel and media-related assets;

   - Expedia will be recapitalized, with shareholders of Expedia electing to either (a) retain their shares of Expedia common stock, which will remain outstanding following the merger, and also receive warrants to acquire Expedia common stock in the merger, or (b) exchange all or some of their shares of Expedia common stock for shares of Expedia Class B common stock, which shares will then be converted into the right to receive a package of USA securities in the merger, subject to proration if holders of more than 37,500,000 shares of Expedia common stock elect to receive shares of Expedia Class B common stock in the recapitalization; and

   - Taipei will merge with and into Expedia, with Expedia surviving as a public company controlled by USA.

2. To consider and vote on a proposal to amend and restate Expedia's Articles of Incorporation to, among other things, create a high-vote and low-vote class of common stock and to make other changes to the Articles of Incorporation included in Annex B to this joint prospectus/proxy statement.

3. To consider and vote on a proposal to terminate the Shareholder Agreement, dated as of October 1, 1999, between Expedia and Microsoft.

4. To consider and vote on a proposal to elect seven directors to serve until the 2002 annual meeting of Expedia shareholders, four of whom will be replaced upon closing of the transactions.

5. To consider and vote on a proposal to adopt the Expedia, Inc. 2001 Stock Plan.

6. To transact any other business as may properly come before the annual meeting or any adjournment or postponement.

Holders of record at the close of business on , 2001 of shares of Expedia common stock will be entitled to vote at the annual meeting or any adjournment or postponement.

By Order of the Board of Directors

/s/ Mark S. Britton

Mark S. Britton
SECRETARY

Bellevue, Washington
, 2001

WHAT YOU WILL RECEIVE IN THE MERGER

Immediately prior to the merger, Expedia will recapitalize its capital stock to create a new class of common stock, Expedia Class B common stock. In connection with the recapitalization, you have the right up to the election deadline to elect to exchange, on a share-for-share basis, some or all of your shares of Expedia common stock for Expedia Class B common stock, subject to proration in the event that shareholders submit elections covering more than 37,500,000 shares of Expedia Class B common stock. ONLY SHARES OF EXPEDIA CLASS B COMMON STOCK WILL BE CONVERTED INTO USA SECURITIES IN THE MERGER. All shares of Expedia common stock that are not exchanged for Class B common stock in the recapitalization will remain outstanding following the merger. In addition, holders of Expedia common stock that remain outstanding following the merger will receive warrants to acquire Expedia common stock.

If you hold outstanding Expedia warrants (which we refer to in this document as "OUTSTANDING EXPEDIA WARRANTS") or vested Expedia stock options, you may also participate in the election provided that you comply with the procedures we describe under "Proposal No. 1--Approval of the Merger Agreement--Structure of the Transactions--Recapitalization--Election Procedures."

The following hypothetical examples illustrate the consideration that you may receive in the merger in exchange for your Expedia shares, depending upon whether you (1) retain some or all of your shares of Expedia common stock and receive warrants to purchase additional shares of Expedia common stock, or (2) elect to exchange some or all of your shares of Expedia common stock for shares of Expedia Class B common stock in the recapitalization and, as a result, receive the package of USA securities in the merger. No fractional shares or warrants will be issued in the merger. Instead, you will receive cash in place of fractional shares and/or warrants. These cash payments are not reflected in the examples below.

EXPEDIA COMMON STOCK

If you do not exchange your shares of Expedia common stock for Expedia Class B common stock in the recapitalization and do not exercise your dissenters' rights in the merger, you will retain your shares of Expedia common stock in the merger. In addition, you will receive, for each share of Expedia common stock that you hold at the time of the merger, 0.1920 of a warrant to acquire one share of Expedia common stock (which we refer to in this document as "NEW EXPEDIA WARRANTS") with a term of seven years and an exercise price of $52.00 per share of Expedia common stock. The following examples illustrate what a holder of 100, 150 and 200 shares of Expedia common stock would receive in the merger:

SHARES OF EXPEDIA COMMON STOCK	RETAINED SHARES OF EXPEDIA COMMON STOCK	WARRANT EXCHANGE RATIO	NUMBER OF EXPEDIA WARRANTS

100..................	100	.1920	19
150..................	150	.1920	28
200..................	200	.1920	38

EXPEDIA CLASS B COMMON STOCK

If you elect to exchange some or all of your shares of Expedia common stock for Expedia Class B common stock in the recapitalization, each share of Expedia Class B common stock that you receive in the recapitalization will be converted into the right to receive the following consideration in the merger:

- a fraction of a share of USA common stock ranging in value from $15.54 (if Microsoft is the only shareholder that elects to receive Expedia Class B common stock in the recapitalization) to $17.50 (if the maximum number of 37,500,000 shares of Expedia Class B common stock are issued in the recapitalization) if the measurement period value of a share of USA common stock ranges from $23.00 to $31.00. If the measurement period value is either greater than $31.00 or less than $23.00, the exact USA common stock exchange ratio will be based on the fraction obtained assuming the measurement period value was $31.00 or $23.00, respectively. The measurement period value for USA common stock is the average closing price of USA common stock over a ten consecutive trading-day period ending on the second trading day prior to the date of the annual meeting;

- a fraction of a share of USA convertible redeemable preferred stock (which we refer to in this document as "USA PREFERRED STOCK") ranging from 0.3892 (if Microsoft is the only shareholder that elects to receive Expedia Class B common stock in the recapitalization) to 0.3500 (if the maximum number of 37,500,000 shares of Expedia Class B common stock are issued in the recapitalization). Each share of USA preferred stock has a $50 face value, a 1.99% annual dividend, two votes per share, and is convertible at any time into USA common stock at a conversion price of $33.75 per USA share, subject to downward adjustment to the extent that the average share price of USA common stock over a ten trading-day period prior to conversion is greater than $35.10. The adjustment to the conversion price is described in more detail on page 64 of this joint prospectus/proxy statement; and

- a fraction of a warrant to acquire one share of USA common stock (which we refer to in this document as "USA WARRANTS") ranging from 0.3873 to 0.4524, the exact fractional amount to be based on a measurement period value for USA common stock ranging from $25.75 to $28.25 per share. The exact USA warrant exchange ratio will be based on the measurement period value for USA common stock as set forth in Annex F to this document. Each USA warrant has a seven-year term and an exercise price of $35.10 per share of USA common stock.

In order to preserve the tax-free nature of the transactions, under certain circumstances the USA warrant exchange ratio may be decreased and the USA common stock exchange ratio may be increased. If this occurs, you will receive fewer USA warrants and more shares of USA common stock and the value of the USA common stock received may be less than the value of the warrants it replaced. The circumstances under which this may occur are described under "The Transaction Agreements--The Merger Agreement--Treatment of Securities in the Merger--Tax Adjustment" and are not reflected in the following examples.

The charts below show the merger consideration for 100 shares of Expedia Class B common stock, assuming in the first chart that the maximum number of shares of Expedia Class B common stock (37,500,000 shares) are issued in the recapitalization, in the second chart that 35,500,000 shares of Expedia Class B common stock are issued in the recapitalization, and in the final chart that only Microsoft is issued shares of Expedia Class B common stock (33,722,710 shares) in the recapitalization. Because the same aggregate number of USA preferred shares (13,125,000 shares) will be issued in the merger regardless of the number of shares of Expedia Class B common stock issued in the recapitalization, the USA preferred stock exchange ratio and the USA common stock exchange ratio will vary depending upon the actual number of shares of Expedia common stock exchanged for Expedia Class B common stock in the recapitalization.

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37,500,000 SHARES OF EXPEDIA CLASS B COMMON STOCK ISSUED (MAXIMUM NUMBER)

SHARES OF EXPEDIA CLASS B COMMON STOCK	MEASUREMENT PERIOD PRICE OF USA COMMON STOCK	COMMON STOCK EXCHANGE RATIO	SHARES OF USA COMMON STOCK	PREFERRED STOCK EXCHANGE RATIO	SHARES OF USA PREFERRED STOCK
100............	<or = 31	0.5645	56	0.35	35
100............	30	0.5833	58	0.35	35
100............	29	0.6034	60	0.35	35
100............	28	0.6250	62	0.35	35
100............	27	0.6481	64	0.35	35
100............	26	0.6731	67	0.35	35
100............	25	0.7000	70	0.35	35
100............	24	0.7292	72	0.35	35
100............	> or = 23	0.7609	76	0.35	35

35,500,000 SHARES OF EXPEDIA CLASS B COMMON STOCK ISSUED

SHARES OF EXPEDIA CLASS B COMMON STOCK	MEASUREMENT PERIOD PRICE OF USA COMMON STOCK	COMMON STOCK EXCHANGE RATIO	SHARES OF USA COMMON STOCK	PREFERRED STOCK EXCHANGE RATIO	SHARES OF USA PREFERRED STOCK
100............	<or = 31	0.5327	53	0.3697	36
100............	30	0.5505	55	0.3697	36
100............	29	0.5695	56	0.3697	36
100............	28	0.5898	58	0.3697	36
100............	27	0.6116	61	0.3697	36
100............	26	0.6352	63	0.3697	36
100............	25	0.6606	66	0.3697	36
100............	24	0.6881	68	0.3697	36
100............	> or = 23	0.7180	71	0.3697	36

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33,722,710 SHARES OF EXPEDIA CLASS B COMMON STOCK ISSUED (MINIMUM NUMBER-ONLY MICROSOFT ELECTS)

SHARES OF EXPEDIA CLASS B COMMON STOCK	MEASUREMENT PERIOD PRICE OF USA COMMON STOCK	COMMON STOCK EXCHANGE RATIO	SHARES OF USA COMMON STOCK	PREFERRED STOCK EXCHANGE RATIO	SHARES OF USA PREFERRED STOCK
100.............	<or = 31	0.5013	50	0.3892	38
100.............	30	0.5180	51	0.3892	38
100.............	29	0.5359	53	0.3892	38
100.............	28	0.5550	55	0.3892	38
100.............	27	0.5755	57	0.3892	38
100.............	26	0.5977	59	0.3892	38
100.............	25	0.6216	62	0.3892	38
100.............	24	0.6475	64	0.3892	38
100.............	> or = 23	0.6756	67	0.3892	38

These examples are not intended to indicate what the future price of USA common stock and/or Expedia common stock may actually be. We will not know the exact value or the exact combination of USA securities that holders electing to receive Expedia Class B common stock will receive in the merger at the time you submit your election form and letter of transmittal or at the time of the shareholder meeting. The measurement period value of USA common stock is subject to change due to market and other conditions, and may be greater or less than the market price of USA common stock on the date of this document, the date of the shareholder meeting, the date you submit your election form and letter of transmittal, or the date of the merger. Fluctuations in the price of USA common stock and Expedia common stock in the period between the date you vote on the transactions and the date the transactions are completed will affect the value of the consideration you receive at the time the transactions are completed, whether received in the form of USA securities or Expedia securities.

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QUESTIONS AND ANSWERS ABOUT THE TRANSACTIONS

THIS QUESTIONS AND ANSWERS SECTION PERTAINS SOLELY TO PROPOSALS RELATING TO THE TRANSACTIONS BEING PRESENTED AT THE ANNUAL MEETING. WE HAVE INCLUDED INFORMATION REGARDING THE PROPOSALS BEING PRESENTED AT THE ANNUAL MEETING TO ELECT DIRECTORS AND TO ADOPT THE EXPEDIA, INC. 2001 STOCK PLAN ELSEWHERE IN THIS JOINT PROSPECTUS/PROXY STATEMENT. FOR INFORMATION ON THESE PROPOSALS, SEE "PROPOSAL NO. 4--ELECTION OF DIRECTORS" ON PAGE 110 AND "PROPOSAL NO. 5--ADOPTION OF 2001 STOCK PLAN" ON PAGE 124.

Q: WHEN DO YOU EXPECT TO COMPLETE THE TRANSACTIONS?

A: We expect to complete the transactions in the fourth quarter of 2001.

Q: WHAT SHOULD I DO NOW?

A: SEND IN YOUR PROXY CARD: After reviewing this document, indicate on your proxy card how you want to vote on each of the proposals, and sign, date and mail it in the enclosed envelope as soon as possible to ensure that your shares will be represented at the annual meeting.

If you do not sign and send in your proxy, and if you do not attend and cast your vote in person at the annual meeting, it will have the effect of voting against each of these proposals.

If you sign, date and send in your proxy but do not indicate how you want to vote, your proxy will be voted in favor of the merger agreement, in favor of the amendment and restatement of Expedia's articles of incorporation and in favor of the termination of the shareholder agreement with Microsoft, all of which proposals are contingent on approval of the other proposals relating to the transactions and all of which are described in this document.

SEND IN YOUR ELECTION FORM AND LETTER OF TRANSMITTAL AND EXPEDIA STOCK CERTIFICATES ONLY IF YOU WANT TO RECEIVE USA SECURITIES IN THE MERGER: If you hold Expedia common stock and you wish to receive the package of USA securities in the merger, you must elect to exchange some or all of your shares of Expedia common stock for shares of Expedia Class B common stock in the recapitalization. You must make your election by completing the enclosed election form and letter of transmittal and submitting the election form and letter of transmittal with the stock certificates covered by the election by the election deadline of 5:00 p.m., eastern time, on   , 2001, the date of the annual meeting. We describe the instructions for making an election on page 36 of this document.

Please note that because Expedia will only issue a maximum of 37,500,000 shares of Expedia Class B common stock in the recapitalization, even if you make a valid election to receive Expedia Class B common stock, you may not receive shares of Expedia Class B common stock for all of the shares of Expedia common stock surrendered with the election form and letter of transmittal. You will, however, receive your proportional allocation.

DO NOT SEND IN YOUR ELECTION FORM AND LETTER OF TRANSMITTAL OR EXPEDIA STOCK CERTIFICATES IF YOU WISH TO RETAIN YOUR EXPEDIA SHARES AND RECEIVE WARRANTS TO PURCHASE ADDITIONAL SHARES OF EXPEDIA COMMON STOCK IN THE MERGER: If you do not elect to exchange your shares of Expedia common stock for Expedia Class B common stock in the recapitalization, please retain your shares of Expedia common stock. Following the merger, we will send you, in respect of each share of Expedia common stock you own immediately prior to the merger (including those retained because Expedia Class B common stock was oversubscribed in the recapitalization), 0.1920 of an Expedia warrant.

Q: IF I HOLD OUTSTANDING EXPEDIA WARRANTS, CAN I PARTICIPATE IN THE ELECTION?

A: Yes, provided that you comply with the procedures we describe under "Proposal No. 1--Approval of the Merger Agreement--Structure of the Transactions--Recapitalization--Election Procedures" starting on page 36.

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Q: IF I HOLD VESTED EXPEDIA STOCK OPTIONS, CAN I PARTICIPATE IN THE ELECTION?

A: Yes, provided you exercise your vested stock options prior to the election deadline and comply with the procedures we describe under "Proposal No. 1--Approval of the Merger Agreement--Structure of the Transactions--Recapitalization--Election Procedures."

Q: WHAT IS THE DEADLINE FOR MAKING AN ELECTION TO EXCHANGE MY SHARES OF EXPEDIA COMMON STOCK FOR SHARES OF EXPEDIA CLASS B COMMON STOCK?

A: The deadline for making an election is 5:00 p.m., eastern time, on   , 2001, the date of the annual meeting. You can call our proxy solicitator, MacKenzie Partners, Inc., toll-free at (800) 322-2885 for the final average trading price of USA common stock during the ten-day pricing period that ends on the second trading day prior to the date of the annual meeting.

Q: CAN I CHANGE MY VOTE AND/OR REVOKE AN ELECTION AFTER I HAVE SUBMITTED MY

PROXY AND ELECTION FORM AND LETTER OF TRANSMITTAL?

A: Yes. You can change your vote by delivering a later-dated, signed proxy card to Expedia's secretary before the annual meeting, or by attending the annual meeting and voting in person. You may change your election by delivering a later-dated, signed election form and letter of transmittal (together with Expedia stock certificates, or other documentation, as required) to Mellon Investor Services, the exchange agent for the transactions, prior to the election deadline. If you revoke an earlier made election, your Expedia stock certificates will be returned to you by the exchange agent.

Q: IF MY SHARES ARE HELD IN "STREET NAME" BY MY BROKER, WILL MY BROKER VOTE MY SHARES AND MAKE AN ELECTION FOR ME?

A: Your broker will vote your shares of Expedia common stock and make an election for you only if you provide your broker with instructions on how to vote and whether to elect. You should instruct your broker how to vote your shares and whether to elect to receive the package of USA securities by following the directions your broker provides. If you do not provide instructions to your broker, your shares will not be voted (which will have the effect of voting against the transactions) and you will not make an election (in which case you will retain your Expedia common stock and will receive new Expedia warrants in the merger).

Q: WHAT IF I DO NOT OWN EXPEDIA SHARES AS OF   2001, THE RECORD DATE?

A: If you do not own Expedia shares as of the record date, you will not be eligible to vote on the proposals being presented at the annual meeting. However, if you acquire Expedia shares after the record date, you may still elect to exchange your shares of Expedia common stock for shares of Expedia Class B common stock in the recapitalization or receive new Expedia warrants for your Expedia shares in the merger, if you follow the procedures set forth in this document.

Q: WHOM CAN I CALL WITH QUESTIONS?

A: If you have any questions about the merger or any related transactions, or would like copies of any of the documents we refer to in this joint prospectus/proxy statement, please call MacKenzie Partners, Inc., the proxy solicitator, at (800) 322-2885.

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SUMMARY

THIS DOCUMENT IS A PROSPECTUS AND A PROXY STATEMENT OF EXPEDIA. IN ADDITION, THIS DOCUMENT, OTHER THAN "PROPOSAL NO. 4--ELECTION OF DIRECTORS" AND "PROPOSAL NO. 5--ADOPTION OF 2001 STOCK PLAN," CONSTITUTES THE PROSPECTUS OF USA. THIS SUMMARY HIGHLIGHTS SELECTED INFORMATION FROM THIS JOINT PROSPECTUS/ PROXY STATEMENT. TO FULLY UNDERSTAND THE MERGER AND THE OTHER TRANSACTIONS CONTEMPLATED IN CONNECTION WITH THE MERGER, AND FOR A MORE COMPLETE DESCRIPTION OF THE LEGAL TERMS OF THESE TRANSACTIONS, YOU SHOULD READ THIS ENTIRE DOCUMENT CAREFULLY, AS WELL AS THOSE ADDITIONAL DOCUMENTS TO WHICH WE REFER YOU. SEE

"WHERE YOU CAN FIND MORE INFORMATION" ON PAGE 17. IN ADDITION, YOU SHOULD BE AWARE THAT THIS SUMMARY DOES NOT HIGHLIGHT INFORMATION RELATING TO THE PROPOSALS BEING PRESENTED AT THE ANNUAL MEETING TO ELECT DIRECTORS AND TO ADOPT THE EXPEDIA, INC. 2001 STOCK PLAN. INFORMATION REGARDING THESE PROPOSALS IS NOT INCLUDED IN THIS SUMMARY SECTION. FOR INFORMATION ON THESE PROPOSALS, SEE "PROPOSAL NO. 4--ELECTION OF DIRECTORS" ON PAGE 110 AND "PROPOSAL NO. 5--ADOPTION OF EXPEDIA, INC. 2001 STOCK PLAN" ON PAGE 124.

THE COMPANIES

USA NETWORKS, INC.
152 West 52nd Street
New York, New York 10019
(212) 314-7300

USA Networks, Inc. (Nasdaq: USAI), a Delaware corporation, is a company focused on the new convergence of entertainment, information and direct selling. USA is organized within two groups, the Entertainment Group and the Interactive Group, comprised of interrelated business divisions that include the following assets: USA Entertainment's USA Network, SCI FI Channel, TRIO, NWI, Crime, Studios USA and USA Films; and USA Interactive's Home Shopping Network, HSN International, HSN Interactive, Ticketmaster (Nasdaq: TMCS), which operates Citysearch and Match.com, Hotel Reservations Network (Nasdaq: ROOM), Electronic Commerce Solutions, Styleclick (Nasdaq: IBUY) and Precision Response Corporation. USA Network's website is located at www.usanetworks.com.

EXPEDIA, INC.
13810 SE Eastgate Way, Suite 400
Bellevue, Washington 98005
(425) 564-7200

Expedia, Inc. (Nasdaq: EXPE), a Washington corporation, is a leading provider of branded online travel services for leisure and business travelers. Expedia operates its own website, located at Expedia.com(-Registered Trademark-), with localized versions in the United Kingdom, Germany and Canada. Expedia(-Registered Trademark-) also operates the LVRS.com, VacationSpot.com-TM-, Travelscape.com-TM- and Rent-a-Holiday.com websites and a Travelscape(-Registered Trademark-)/ LVRS-TM- sales call center in Las Vegas. Expedia offers one-stop travel shopping and reservation services, providing reliable, real-time access to schedule, pricing and availability information for over 450 airlines, 43,000 lodging properties, all major car rental companies, dozens of vacation and cruise suppliers and an increasing number of local destination services providers.

Prior to completing its initial public offering in November 1999, Expedia was part of Microsoft. As of June 30, 2001, Expedia employed 846 full-time employees.

TAIPEI, INC.
c/o USA Networks, Inc.
152 West 52nd Street
New York, New York 10019
(212) 314-7300

Taipei, Inc., a Washington corporation, is a wholly owned subsidiary of USA, created solely for the purpose of the proposed transactions. In accordance with the terms of the merger described in this joint prospectus/proxy statement, Taipei will merge with and into Expedia at the effective time of the merger.

THE PROPOSED TRANSACTIONS (see page 34)

The proposed transactions will involve the following steps:

- CONTRIBUTION OF ASSETS: Prior to the merger, USA will contribute the following assets to Taipei, USA's wholly owned subsidiary that will merge into Expedia:

  -- a two-year option to acquire, at USA's purchase price, all of the

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outstanding equity of National Leisure Group, Inc., a provider of vacation and cruise packages, which USA has agreed to acquire;

  -- a two-year option to purchase one third of USA's initial equity interest in a travel channel that USA is currently developing. The exercise price of the travel channel option will equal one-third of the development costs USA incurs, plus interest, up to the date of exercise in developing the travel channel; and

  -- all of the outstanding equity of USA Media, LLC, which has as its sole asset the right (at no cost to USA Media) to advertising, marketing and promotion time, valued at $15 million for each of the next five years, on the various media outlets owned by USA or its controlled subsidiaries.

- RECAPITALIZATION OF EXPEDIA: Following the contribution of assets to Taipei and immediately prior to the merger, Expedia will recapitalize its common stock to create a new class of common stock, Expedia Class B common stock, which will be entitled to 15 votes per share. In connection with the recapitalization and subject to a maximum of 37,500,000 shares of Expedia Class B common stock that Expedia will issue in the recapitalization, Expedia shareholders and holders of outstanding Expedia warrants who exercise such warrants prior to the recapitalization, may elect to exchange some or all of their shares of Expedia common stock for an equal number of shares of Expedia Class B common stock.

- AMENDMENT AND RESTATEMENT OF EXPEDIA'S ARTICLES OF INCORPORATION: As part of the recapitalization, Expedia will amend and restate its articles of incorporation to be in the form set forth on Annex B to this document.

- MERGER: Following the recapitalization, Taipei will merge with and into Expedia, with Expedia surviving as a public company controlled by USA. In the merger:

  -- each share of Expedia Class B common stock will be converted into a package of USA securities comprised of shares of USA common stock, shares of USA convertible redeemable preferred stock and warrants to acquire USA common stock;

  -- each share of Expedia common stock will remain outstanding, with holders of Expedia common stock also receiving warrants to acquire Expedia common stock; and

  -- outstanding shares of Taipei common stock, all of which are held by USA, will be converted into the right to receive an aggregate number of shares of Expedia Class B common stock equal to the number of shares of Expedia Class B common stock issued in the recapitalization.

As a result of the merger, Expedia will succeed to Taipei's rights to the travel and media-related assets which were contributed to Taipei prior to the merger.

- TERMINATION OF SHAREHOLDER AGREEMENT: At the effective time of the merger, the existing shareholder agreement between Expedia and Microsoft will be terminated. The ongoing relationship between Microsoft and Expedia will be governed by any ongoing agreements they have.

TREATMENT OF EXPEDIA OPTIONS IN THE TRANSACTIONS

Expedia options will remain unchanged following the transactions. Prior to the date of the annual meeting, Expedia will distribute to holders of vested and unvested Expedia options issued under Expedia employee benefit plans on or prior to August 2, 2001, 0.1920 of a restricted Expedia warrant for each Expedia option outstanding at the time of this distribution. The restricted Expedia warrants to be distributed to

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optionholders have terms identical to the terms of the Expedia warrants being distributed in the merger to holders of Expedia common stock, except that the restricted warrants being distributed to Expedia optionholders are subject to the same vesting schedule as the options in respect of which the warrants are being issued and will not be transferable and may not be exercised for a period of 90 days following the date of their issue.

If a holder of a vested option desires to elect to receive Expedia Class B common stock in the recapitalization and USA securities in the merger, the holder must exercise his options prior to the election deadline.

EXPEDIA SHAREHOLDER VOTE REQUIRED

We refer to the contribution of assets to Taipei, the recapitalization of Expedia, the amendment and restatement of Expedia's articles of incorporation, the merger and the termination of the shareholder agreement with Microsoft collectively throughout this document as the "TRANSACTIONS."

USA, Expedia and Microsoft will only proceed with the transactions if each of Proposal No. 1, Proposal No. 2 and Proposal No. 3, as each of these proposals is described in this joint prospectus/proxy statement (we refer to these proposals in this document as "THE PROPOSALS RELATING TO THE TRANSACTIONS") has been approved by holders of a majority of the shares of Expedia common stock outstanding on   , 2001, the record date, and the other conditions to the transactions are satisfied or waived. Microsoft has agreed to vote all its shares of Expedia common stock in favor of the proposals relating to the transactions and has granted USA an irrevocable proxy to vote its shares in favor of each of the proposals related to the transactions. The vote of Microsoft shares is sufficient to ensure approval of all of the proposals relating to the transactions.

RECOMMENDATION TO SHAREHOLDERS
(see page 40)

The Expedia board of directors, with one director excused, has unanimously determined that each of the proposals relating to the transactions being presented to you at the annual meeting is consistent with, and in furtherance of, the long-term business strategy of Expedia and is fair to, and in the best interests of, Expedia and its shareholders and recommends that you vote FOR approval and adoption of each of these proposals. However, the Expedia board of directors is not taking a position on whether you should remain as a shareholder of Expedia or elect to receive shares of Expedia Class B common stock in the recapitalization, and as a result USA securities in the merger.

Microsoft has agreed to exchange all of its shares of Expedia common stock for shares of Expedia Class B common stock in the recapitalization, subject to proration, and thus, to receive the USA securities in the merger. Other shareholders of Expedia may not be subject to the same restraints on liquidity with respect to the Expedia shares as Microsoft. Other shareholders may have objectives and concerns that are different than Microsoft's. Microsoft's election is not a recommendation of the suitability of the USA securities for any other person or as a recommendation concerning the investment merits of the USA securities in comparison to Expedia securities. Microsoft specifically disclaims any such recommendations.

You should refer to the material factors considered by the Expedia board of directors in making its decision to adopt and approve the proposals relating to the transactions. These material factors are discussed beginning on page 40.

OPINION OF FINANCIAL ADVISOR (see page 44)

In deciding to approve the transactions, the Expedia board of directors considered the opinion of its financial advisor, Morgan Stanley & Co. Incorporated, that, as of July 15, 2001, and subject to and based on the assumptions and considerations referred to in Morgan Stanley's opinion, the consideration to be received by the holders of shares of Expedia common stock (other than Microsoft) pursuant to the terms of the merger agreement was fair from a financial point of view to such holders.

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THE FULL TEXT OF MORGAN STANLEY'S OPINION IS ATTACHED AS ANNEX D TO THIS JOINT PROSPECTUS/ PROXY STATEMENT. Expedia urges its shareholders to read the opinion of Morgan Stanley in its entirety.

THE TRANSACTION AGREEMENTS

THE MERGER AGREEMENT (see page 34)

We have attached the merger agreement, which is the legal document that governs the transactions, as Annex A to this document. In addition, we have attached the proposed amended and restated articles of Expedia as Annex B and the amended and restated bylaws of Taipei, which will become the bylaws of Expedia as a result of the merger, as Annex C. We encourage you to read these documents carefully. We have also filed other related agreements as exhibits to USA's and Expedia's registration statements. Please see the section titled "Where You Can Find More Information," on page 17, for instructions on how to obtain copies of these exhibits.

CONDITIONS (see page 73)

USA, Expedia and Microsoft will complete the transactions only if certain conditions are satisfied or waived, including the following:

- approval by Expedia's shareholders of all of the proposals related to the transactions presented to shareholders at the annual meeting;

- listing of shares of USA common stock, shares of USA convertible redeemable preferred stock, USA warrants, new Expedia warrants and, if necessary, Expedia Class B common stock on Nasdaq, the American Stock Exchange or other exchange acceptable to, in the case of the USA securities, Microsoft and USA and, in the case of the new Expedia warrants, Expedia, in each case to the extent eligible for listing;

- clearance under U.S. and any material foreign antitrust laws;

- receipt by Expedia of an opinion of its tax counsel and, as a condition for Microsoft only, receipt by Microsoft of an opinion of its tax counsel, in each case that the recapitalization and the merger each constitute a reorganization under the Internal Revenue Code and that no gain or loss will be recognized by Expedia's shareholders or Microsoft, as the case may be, upon the receipt of the package of USA securities in exchange for shares of Expedia Class B common stock; and

- other customary closing conditions as provided in the merger agreement.

TERMINATION (see page 74)

The merger agreement may be terminated in a number of circumstances, including the following:

- by mutual agreement of USA, Expedia and Microsoft;

- by any of USA, Expedia or Microsoft if:

  -- the merger is not completed by April 15, 2002, which date will automatically be extended to July 15, 2002 if necessary to obtain remaining material antitrust clearances;

  -- a final and nonappealable order is issued enjoining or prohibiting the proposed transactions;

  -- any other party materially breaches and fails to cure its representations and warranties or covenants contained in the merger agreement; or

  -- if any litigation or proceeding is pending or threatened which is reasonably likely to result in substantial damages or substantially impair the benefits of the transactions to any party.

- by USA if:

  -- Expedia's board of directors breaches its obligation to submit all of the proposals relating to the transactions described in this document to Expedia's shareholders

at the annual meeting or alters its recommendation to shareholders in a manner that would prevent Expedia from submitting the proposals to its shareholders at the annual meeting; or

  -- Microsoft breaches and fails to timely cure any of its covenants or agreements included in the voting and election agreement with USA.

ELECTION PROCEDURES (see page 36)

You will receive along with this joint prospectus/proxy statement an election form and letter of transmittal, which will include instructions on how to elect to exchange all or a portion of your shares of Expedia common stock for shares of Expedia Class B common stock in the recapitalization and, as a result, receive USA securities in the merger. If you did not receive a copy of the election form and letter of transmittal because you acquired Expedia shares after the record date you should call the proxy solicitor, MacKenzie Partners, Inc. at (800) 322-2885 and a copy of each will be mailed to you free of charge.

Depending on the manner in which you hold your shares, as discussed in more detail in this joint prospectus/proxy statement, in order to validly make an election, you will have to, or cause your broker(s) or nominee(s) to, if the shares and/or warrants are held through a broker or nominee, complete and execute the election form and letter of transmittal so that it is received (and not withdrawn in writing) prior to the election deadline, which is 5:00 p.m. eastern time on , 2001, the date of the annual meeting. You may submit more than one election form and letter of transmittal.

If you are a shareholder and are electing to receive Expedia Class B common stock in the recapitalization, for your election to be valid, you must deliver, or cause to be delivered, to the exchange agent:

- the certificates representing all of the shares of Expedia common stock for which you have made an election; and

- a completed election form and letter of transmittal.

If the stock certificates are not available when the election form and letter of transmittal are sent to the exchange agent, you may provide a guarantee of delivery instead of providing the stock certificates.

If you hold outstanding Expedia warrants and are electing to receive Expedia Class B common stock in the recapitalization, for your election to be valid, you must deliver, or cause to be delivered, to the exchange agent:

- a copy of your warrant, payment of your exercise price and an executed notice to exercise your warrant prior to the recapitalization and the applicable exercise price; and

- a completed election form and letter of transmittal.

Please note that you will not actually receive physical certificates for the shares of Expedia Class B common stock you elect in the recapitalization. Instead, the shares of Expedia Class B common stock you elect will automatically be converted in the merger into the package of USA securities, which will be certificated if directed in the election form and letter of transmittal.

REGULATORY APPROVALS (see page 59)

USA, Expedia and Microsoft have made filings and taken other actions, and will continue to take actions, necessary to obtain approvals from U.S. and foreign governmental authorities in connection with the proposed transactions, including U.S. and foreign antitrust authorities. On August 1, 2000, USA and Microsoft filed their Premerger Notification and Report Forms under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 with the Antitrust Division of the Department of Justice and the Federal Trade Commission. The waiting period was terminated early on August 10, 2001. We expect to obtain all other material required governmental approvals and complete the merger in the last quarter of 2001.

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MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTIONS (see page 56)

The obligations of the parties to consummate the recapitalization and the merger are conditioned on Expedia's receipt of an opinion of counsel, dated the closing date of the recapitalization and the merger, substantially to the effect that (1) each of the recapitalization and the merger will, taking into account all of the transactions contemplated under the merger agreement, constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and (2) no gain or loss will be recognized by the shareholders of Expedia upon the receipt of USA common stock, USA preferred stock and USA warrants in exchange for their shares of Expedia Class B common stock in the merger. Assuming that each of the merger and the recapitalization qualifies as a reorganization, the recapitalization and the merger will generally be tax-free to Expedia shareholders, except that Expedia shareholders will recognize gain or loss on the sale of new Expedia warrants, USA common stock, USA preferred stock or USA warrants by the exchange agent on behalf of the Expedia shareholders who would otherwise receive fractional interests.

This tax treatment may not apply to all Expedia shareholders. Determining the actual tax consequences to you of the recapitalization and the merger can be complicated, and will depend on your specific situation and on variables not within the control of Expedia or USA. You should consult your own tax advisor for a full understanding of the tax consequences to you of the recapitalization and the merger.

ACCOUNTING TREATMENT (see page 55)

USA will account for the transactions as a purchase in accordance with generally accepted accounting principles. As the transaction is currently structured, Expedia will use purchase accounting to reflect in its financial statements the purchase price paid by USA for the voting stock acquired in accordance with generally accepted accounting principles.

DISSENTERS' RIGHTS (see page 60)

Expedia shareholders are entitled to dissenters' rights in connection with the recapitalization and/or merger if they properly exercise their rights under Washington law. We describe the procedures for exercising dissenters' rights in this joint prospectus/proxy statement and attach the provisions of Washington law that govern dissenters' rights as Annex G to this document. Expedia shareholders who exercise dissenters' rights will be treated as non-electing shareholders in the recapitalization.

LISTING OF SECURITIES

USA will list the shares of USA common stock to be issued in the merger on Nasdaq. USA expects to list the shares of USA preferred stock and USA warrants to be issued in the merger on Nasdaq, the American Stock Exchange or another exchange acceptable to Microsoft and USA, to the extent eligible for listing. Expedia expects to list the Expedia warrants and, if necessary, the Expedia Class B common stock to be issued in the transactions on Nasdaq, the American Stock Exchange or another exchange acceptable to Expedia, to the extent eligible for listing.

VOTING AND ELECTION AGREEMENT
(see page 75)

Microsoft has agreed to vote the Expedia shares it beneficially owns or has the right to vote in favor of each of the proposals relating to the transactions being presented to shareholders at the annual meeting and against any other takeover proposal and has granted to USA an irrevocable proxy to vote its Expedia shares in this manner. As of August 3, 2001, these shares represented approximately 67% of the total voting power of Expedia shares entitled to vote on the transactions. Microsoft has also agreed to elect to exchange all of its shares of Expedia common stock, including shares issuable upon exercise of outstanding Expedia warrants, for Expedia Class B common stock in the recapitalization, subject to proportional allocation in the event that the shares of Expedia Class B common stock are oversubscribed in the recapitalization. USA has agreed to provide Microsoft with registration rights in order to permit Microsoft to sell the

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USA securities received by Microsoft in the merger.

INTERESTS OF OFFICERS AND DIRECTORS

(see page 51)

Members of the management and board of directors of Expedia have interests in the merger that are different from, or in addition to, your interests as a shareholder. Mr. Richard N. Barton is the president and chief executive officer of Expedia and is a member of the Expedia board of directors that approved the merger. He and Mr. Gregory S. Stanger, the chief financial officer of Expedia, as well as Messrs. Gregory B. Maffei and Jay C. Hoag, current board of directors members of Expedia, will be designated as members of the initial board of directors of the surviving company after the merger.

In addition, Expedia entered into binding employment agreement term sheets with Mr. Richard N. Barton and Mr. Gregory S. Stanger in connection with the merger, setting forth the material terms of their employment, which will be reflected in employment agreements that will be entered into prior to the effective time of the merger. Expedia and USA have also agreed in a binding term sheet that Mr. Barton may, in his discretion, cause Expedia to enter into employment agreements with 16 additional members of senior management for a term of three years following the effective time. The additional managers' initial base salaries to be provided in the employment agreements will be the managers' respective current salaries.

In addition, around the time the parties entered into the merger agreement, the compensation committee of the board of directors of Expedia granted to members of Expedia's management and board of directors options to acquire Expedia common stock. All options held by non-employee directors of Expedia who do not continue to serve on the board of directors after the effective time, or who cease to be directors for any reason within one year following the effective time, will become fully exercisable.

For a more complete description of these arrangements, please read the section "Proposal No. 1--Approval of the Merger Agreement--Other Interests of Expedia Officers and Directors in the Transactions."

THE ANNUAL MEETING (see page 31)

WHEN AND WHERE. The Expedia annual meeting will take place at , , , , on , 2001, at a.m., local time.

WHAT YOU ARE BEING ASKED TO VOTE ON. At the annual meeting, you will have the opportunity to vote on the following proposals relating to the transactions:

- a proposal to approve the merger agreement and the transactions contemplated by the merger agreement, including the contribution of assets, the recapitalization and the merger;

- a proposal to approve the amended and restated articles of incorporation of Expedia; and

- a proposal to approve the termination of the shareholder agreement between Expedia and Microsoft.

WHO CAN VOTE. You can vote at the annual meeting if you owned shares of Expedia common stock at the close of business on the record date for the annual meeting, , 2001. On that date, there were shares of Expedia common stock outstanding and entitled to vote. You can cast one vote for each share of Expedia common stock that you owned on that date.

WHAT VOTE IS NEEDED. In order to approve each of the proposals relating to the transactions being presented to shareholders at the annual meeting, the holders of a majority of the outstanding shares of Expedia entitled to vote must vote in favor of those proposals.

Microsoft has agreed to vote in favor of each of the proposals relating to the transactions being presented at the annual meeting and has granted USA an irrevocable proxy to vote its shares in this manner. Accordingly, no other vote of any Expedia shareholder is required to approve any of these proposals.

EXPEDIA AFTER THE MERGER (see page 50)

CAPITAL STOCK

After the transactions, Expedia's capital stock will consist of:

- Expedia common stock, which will be held by shareholders of Expedia who did not elect to receive Expedia Class B common stock in the recapitalization and shareholders who did so elect but were prorated;

- Expedia Class B common stock, all of which will be held by USA;

- outstanding Expedia warrants, which in accordance with their terms do not terminate upon the effective time of the merger, to the extent that holders of these warrants have not elected to exercise them prior to the recapitalization;

- new Expedia warrants which will be issued in the merger to shareholders of Expedia who retain their Expedia common stock in the recapitalization; and

- new Expedia warrants which will be distributed as part of the transactions prior to the annual meeting to Expedia optionholders who were granted options on or prior to August 2, 2001 and who continue to hold such options on the date of the distribution.

The only difference between the two classes of common shares is that the Expedia common stock will be entitled to one vote per share and the Expedia Class B common stock will be entitled to 15 votes per share.

OWNERSHIP OF EXPEDIA AFTER THE TRANSACTIONS

Immediately after the transactions are consummated, USA will hold between 67% and 75% of the outstanding equity (depending on the number of shareholders who remain as shareholders of Expedia after the recapitalization) and in excess of 90% of the outstanding voting power of Expedia, with the former holders of Expedia owning the remaining outstanding interests in Expedia. All percentages are as of   , 2001, but after giving effect to the transactions.

MANAGEMENT AND OPERATIONS OF EXPEDIA AFTER THE TRANSACTIONS

Following the transactions, USA will control Expedia. Barry Diller, the Chairman of the Board and Chief Executive Officer of USA, will become Chairman of Expedia and Richard N. Barton will continue in his role as President and Chief Executive Officer of Expedia. At the effective time of the merger and through the one-year anniversary of such time, the board of directors of Expedia will consist of 11 members, six of whom will be appointed by USA. The other five members will be Expedia's Chief Executive Officer, Expedia's Chief Financial Officer and three independent directors, of whom two will be Gregory B. Maffei and Jay C. Hoag, current directors of Expedia.

RELATIONSHIP WITH USA

Following the transactions, USA and Expedia have agreed that their relationship will be governed by the following principles, none of which can be amended or waived without the approval of a majority of Expedia's independent directors:

- USA or any of its subsidiaries, on the one hand, and Expedia or any of its subsidiaries, on the other hand, may engage in or own interests in businesses that compete with the other;

- as long as USA owns 50.1% of Expedia's total voting power, Expedia may not enter into or amend any material arrangements with USA or any of its affiliates without the approval of a majority of Expedia independent directors; and

- there will be meaningful consultation between USA and Expedia's Chief Executive Officer in the selection of Expedia's independent directors.

MARKETS AND MARKET PRICES (page 46)

The shares of USA common stock are listed on Nasdaq under the symbol "USAI." The shares of Expedia common stock are listed on Nasdaq under the symbol "EXPE." On July 13, 2001, the last trading date prior to the public

announcement of the proposed transactions, USA common stock closed at $25 17/64 per share and Expedia common stock closed at $48 45/64 per share. On , 2001, the most recent practicable date prior to printing of this joint prospectus/proxy statement, USA common stock closed at $ per share and Expedia common stock closed at $ per share. You may obtain more recent stock price quotes from most newspapers or other financial sources and we encourage you to do so.

SELECTED HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

HISTORICAL FINANCIAL INFORMATION

We are providing or incorporating by reference in this joint prospectus/proxy statement selected historical financial information for USA and Expedia to help you in your analysis of the financial aspects of the proposed transactions. We derived this information from the audited and unaudited financial statements of USA and Expedia for the periods presented. The information is only a summary and you should read it together with the financial information included or incorporated by reference in this joint prospectus/proxy statement. See "Where You Can Find More Information" on page 17.

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

We are also providing unaudited pro forma combined financial information on page 78 of this joint prospectus/proxy statement to show you how USA and Expedia might have looked if the transactions had been completed as of the dates or at the beginning of the periods presented. The pro forma financial information was prepared using the purchase method of accounting, with USA treated as the acquiror.

If we had actually completed these transactions in prior periods, USA and Expedia might have performed differently. You should not rely on the pro forma financial information as an indication of the results that USA or Expedia would have achieved if the transactions had taken place earlier or the future results that USA or Expedia will experience after completion of the transactions.

SELECTED HISTORICAL FINANCIAL INFORMATION

USA

In the table below, USA provides you with selected historical consolidated financial data of USA. USA prepared this information using the consolidated financial statements of USA for each of the years in the five-year period ended December 31, 2000 and for the six-month periods ended June 30, 2001 and 2000. The financial statements for each of the five years in the period ended December 31, 2000 have been audited by Ernst & Young LLP, independent auditors. The financial statements for the six-month periods ended June 30, 2001 and 2000 have not been audited. USA has not declared any cash dividends on USA common stock.

When you read the selected historical financial information, you should consider reading along with it the historical financial statements and accompanying notes that USA has included in its December 31, 2000 Annual Report on Form 10-K. You can obtain this report by following the instructions we provide under "Where You Can Find More Information" on page 17.

As used in this document, the term "EBITDA" refers to net income plus (1) extraordinary items and cumulative effect of accounting changes, (2) provision for income taxes, (3) interest expense, (4) depreciation and amortization, (5) minority interest and (6) amortization of non-cash distribution and marketing expense and non-cash compensation expense. EBITDA is presented because USA believes it is a widely accepted indicator of its ability to service debt as well as a valuation methodology for companies in the media, entertainment and communication industries. EBITDA should not be considered in isolation or as a substitute for measures of financial performance or liquidity prepared in accordance with generally accepted accounting principles. EBITDA may not be comparable to calculations of similarly titled measures presented by other companies.

	YEARS ENDED DECEMBER 31,				
	1996(1)	1997(2)	1998(3)(4)	1999(5)	2000
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENTS OF OPERATIONS DATA:					
Net revenues	$ 36,361	$1,377,145	$ 2,759,896	$3,371,745	$ 4,60
Operating profit (loss)	(564)	105,753	249,904	269,914	5
Earnings (loss) from continuing operations	(1,572)	34,209	63,892	16,515	(8
Earnings (loss) before cumulative effect of accounting change	(6,539)	13,061	76,894	(27,631)	(14
Net earnings (loss)	(6,539)	13,061	76,894	(27,631)	(14
Basic earnings (loss) per common share from continuing operations(8)	(.04)	.16	.22	.05	
Diluted earnings (loss) per common share from continuing operations(8)	(.04)	.15	.19	.04	
Basic earnings (loss) per common share before cumulative effect of accounting change(8)	(.15)	.06	.27	(.08)	
Diluted earnings (loss) per common share before cumulative effect of change of accounting change(8)	(.15)	.06	.21	(.08)	
Basic earnings (loss) per common					

share(8)	(.15)	.06	.27	(.08)	
Diluted earnings (loss) per common share(8)	(.15)	.06	.21	(.08)	
BALANCE SHEET DATA (END OF PERIOD):					
Working capital (deficit)	$ (24,444)	$ 60,941	$ 443,408	$ 381,046	$ 60
Total assets	2,116,232	2,670,796	8,316,190	9,233,227	10,47
Long-term obligations, net of current maturities	271,430	448,346	775,683	574,979	55
Minority interest	356,136	372,223	3,633,597	4,492,066	4,81
Stockholders' equity	1,158,749	1,447,354	2,571,405	2,769,729	3,43
OTHER DATA:					
Net cash provided by (used in)					
Operating activities	$ 8,198	$ 60,363	$ 256,929	$ 401,577	$ 37
Investing activities	1,545	(83,043)	(1,201,912)	(413,968)	(52
Financing activities	16,308	105,156	1,297,654	55,948	5
Net cash used in discontinued operations	2,585	9,041	(20,488)	(66,260)	(8
Effect of exchange rate changes	--	--	(1,501)	(123)	(
EBITDA	2,295	198,372	496,612	627,745	80

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(1) The consolidated statement of operations data include the operations of Savoy Pictures Entertainment, Inc. and Home Shopping Network, Inc. since their acquisition by USA on December 19, 1996 and December 20, 1996, respectively. Prior to USA's acquisition of USA Networks, referred to as Networks, which consisted of USA Network and The Sci-Fi Channel cable televisions networks, and the domestic television production and distribution business of Universal Studios, Inc., referred to as Studios USA, the assets of Home Shopping Network, Inc. consisted principally of our retail sales programs, Home Shopping Network and America's Store.

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(2) The consolidated statement of operations data include the operations of Ticketmaster since the acquisition by USA of its controlling interest in Ticketmaster on July 17, 1997.

(3) The consolidated statement of operations data include the operations of Networks and Studios USA since the acquisition by USA from Universal on February 12, 1998 and CitySearch since its acquisition by USA on September 28, 1998.

(4) Net earnings for the year ended December 31, 1998 include a pre-tax gain of $74.9 million related to USA's sale of its Baltimore television station during the first quarter of 1998 and a pre-tax gain of $109.0 million related to the CitySearch transaction during the fourth quarter of 1998.

(5) The consolidated statement of operations data include the operations of Hotel Reservation Network, referred to as Hotel Reservations, since its acquisition by USA on May 10, 1999 and the operations of October Films and the domestic film distribution and development business of Universal, which was previously operated by Polygram Filmed Entertainment, referred to as USA Films, since their acquisition by USA on May 28, 1999. Net earnings for the year ended December 31, 1999 includes a pre-tax gain of $89.7 million related to the sale of securities.

(6) Includes a pre-tax gain of $104.6 million related to the Styleclick transaction, a pre-tax gain of $3.7 million related to the HRN initial public offering, and a pre-tax charge of $145.6 million related to impairment of Styleclick goodwill.

(7) Includes a gain of $49.8 million related to the sale of capital stock of certain USA Broadcasting subsidiaries and an after-tax expense of $9.2 million related to the cumulative effect of adoption SOP 00-2, Accounting By Producers or Distributors of Films.

(8) Earnings (loss) per common share data and shares outstanding retroactively reflect the impact of two-for-one stock splits of USA's Common Stock and USA Class B common stock paid on February 24, 2000 and March 26, 1998. All share numbers give effect to such stock splits.

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EXPEDIA

In the table below, Expedia provides you with selected historical consolidated financial data of Expedia. Expedia prepared this information using the consolidated financial statements of Expedia for each of the fiscal years in the five-year period ended June 30, 2001. The financial statements for each of the fiscal years in the five year period ended June 30, 2001 have been audited by Deloitte & Touche LLP, independent auditors. Expedia has not declared any dividends on Expedia common stock.

When you read the selected historical financial information, you should consider reading along with it the historical financial statements and accompanying notes that Expedia has included in its June 30, 2001 Annual Report on Form 10-K. You can obtain this report by following the instructions we provide under "Where You Can Find More Information" on page 17.

	YEARS ENDED JUNE 30,			
	1997	1998	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DAT			
STATEMENT OF OPERATIONS DATA:				
Agency revenues..................................	$ 1,715	$ 6,866	$ 24,677	$ 59,534
Merchant revenues................................		--	--	10,912
Advertising and other revenues...................	1,027	6,961	14,022	24,185
Revenues...	2,742	13,827	38,699	94,631
Cost of agency revenues..........................	3,176	8,996	14,548	34,136
Cost of merchant revenues........................			--	3,369
Cost of advertising and other revenues...........	103	696	1,402	2,643
Cost of revenues.................................	3,279	9,692	15,950	40,148
Gross profit (loss)..............................	(537)	4,135	22,749	54,483
Operating expenses...............................	28,384	33,613	42,351	96,599
Operating expenses - non-cash....................	--	--	--	78,552
Loss from operations.............................	(28,921)	(29,478)	(19,602)	(120,668)
Net interest income and other....................	--	--	--	2,353
Net loss...	$(28,921)	$(29,478)	$(19,602)	$(118,315)
Basic and diluted net loss per share...............				

Pro forma basic and diluted net loss per share......			$ (0.59)	$ (3.11)
Weighted average shares used to compute basic and diluted net loss per common share................				
Weighted average shares used to compute pro forma basic and diluted net loss per common share.......			33,000	38,044
BALANCE SHEET DATA:				
Cash and cash equivalents........................	$ --	$ --	$ --	$ 60,670
Working capital..................................	658	4,814	1,390	20,122
Total assets.....................................	1,645	8,333	5,756	273,050
Unearned revenue.................................	2,337	7,963	6,215	9,696
Deferred merchant bookings.......................	--	--	--	14,424
Long-term liabilities, net of current portion.....	--	5,820	3,851	4,557
Accumulated deficit..............................	(37,684)	(67,162)	(86,764)	--
Retained deficit.................................	--	--	--	(113,365)
Total stockholders' equity (owner's net deficit).......................................	(721)	(92)	(1,675)	207,496

SELECTED PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION

USA

In the table below, we provide you with unaudited selected pro forma combined condensed financial information for USA as if the transactions had been completed on January 1, 2000 for income statement purposes and on June 30, 2001 for balance sheet purposes. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", provides that any goodwill resulting from a business combination completed subsequent to June 30, 2001 will not be amortized, but instead is required to be tested for impairment at least annually. USA has not declared any cash dividends on USA common stock.

This unaudited selected pro forma combined financial information should be read in conjunction with the separate historical financial statements and accompanying notes of USA and Expedia that are incorporated by reference in this joint prospectus/proxy statement. It is also important that you read the unaudited pro forma combined financial information and accompanying discussion that we have included in this joint prospectus/proxy statement starting on page 78 under "Unaudited Pro Forma Combined Condensed Financial Statements--USA." You should not rely on the unaudited selected pro forma financial information as an indication of the results of operations or financial position that would have been achieved if the transactions had taken place earlier or of the results of operations or financial position of USA after the completion of the transactions.

	PRO FORMA	
	YEAR ENDED DECEMBER 31, 2000	SIX MONTHS ENDE JUNE 30, 2001
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	
STATEMENT OF OPERATIONS DATA:		
Net revenues...	$ 4,829,687	$ 2,822,821

Operating profit (loss)	(130,817)	133,650
Loss from continuing operations	(254,519)	(46,222)
Earnings (loss) before cumulative effect of accounting change	(254,519)	3,607
Net loss before preferred dividend	(313,914)	(5,580)
Net loss available to common shareholders	(326,973)	(12,110)
LOSS PER SHARE FROM CONTINUING OPERATIONS		
Basic and diluted	($0.65)	($0.12)
EARNINGS (LOSS) PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE		
Basic and diluted	($0.65)	$0.01
NET LOSS PER SHARE BEFORE PREFERRED DIVIDEND EARNINGS		
Basic and diluted	($0.80)	($0.01)
NET LOSS PER SHARE AVAILABLE TO COMMON SHAREHOLDERS		
Basic and diluted	($0.84)	($0.03)
BALANCE SHEET DATA (END OF PERIOD):		
Working capital		$ 844,523
Total assets		12,604,879
Long-term obligations, net of current maturities		553,875
Minority interest		4,944,416
Stockholders' equity		5,139,001

EXPEDIA

In the table below, we provide you with unaudited selected pro forma combined condensed financial information for Expedia as if the transactions had been completed on July 1, 2000 for income statement purposes and on June 30, 2001 for balance sheet purposes. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", provides that goodwill resulting from a business combination completed subsequent to June 30, 2001 will not be amortized but instead is required to be tested for impairment at least annually. Expedia has not declared any cash dividends on Expedia common stock.

This unaudited selected pro forma combined financial information should be read in conjunction with the separate historical financial statements and accompanying notes of Expedia that are incorporated by reference in this joint prospectus/proxy statement. It is also important that you read the unaudited pro forma combined financial information and accompanying discussion that we have included in this joint prospectus/proxy statement starting on page 85 under "Unaudited Pro Forma Combined Condensed Financial Statements--Expedia." You should not rely on the unaudited selected pro forma financial information as an indication of the results of operations or financial position that would have been achieved if the transactions had taken place earlier or of the results of operations or financial position of Expedia after the completion of the transactions.

	TWELVE MONTHS ENDED JUNE 30, 2001
STATEMENT OF OPERATIONS DATA:	
Net revenues	$ 222,220

Operating loss	(82,644)
Net loss	($78,053)
LOSS PER SHARE	
Basic and diluted	($1.65)
BALANCE SHEET DATA (END OF PERIOD):	
Working capital	$ 86,147
Total assets	1,793,622
Long-term obligations, net of current maturities	1,303
Minority interest	28,527
Stockholders' equity	1,596,250

UNAUDITED COMPARATIVE PER SHARE DATA

In the table below, we provide you with historical per share financial information for USA and Expedia as of June 30, 2001 and December 31, 2000 and for the twelve months ended December 31, 2000. We also provide you with pro forma per share financial information for USA and Expedia as of June 30, 2001 and for the twelve months ended December 31, 2000, in the case of USA and June 30, 2001, in the case of Expedia. The USA pro forma financial information assumes that the transactions had been completed on January 1, 2000 for income statement purposes and on June 30, 2001 for balance sheet purposes. The Expedia pro forma financial information assumes that this transaction had been completed on July 1, 2000 for income statement purposes and on June 30, 2001 for balance sheet purposes.

Neither USA nor Expedia has declared any cash dividends during this period.

It is important that when you read this information, you read along with it the financial statements and accompanying notes of USA and Expedia included in the documents described on page 17 of this joint prospectus/proxy statement under "Where You Can Find More Information." It is also important that you read the pro forma combined financial information and accompanying discussion and notes that we have included in this joint prospectus/proxy statement starting on page 78 under "Unaudited Pro Forma Combined Condensed Financial Statements." You should not rely on the pro forma financial information as an indication of the results of operations or financial position that would have been achieved if the transactions had taken place earlier or the results of USA after the completion of the transactions.

	USA		EXPEDIA	EXP EQUI
	ACTUAL	PRO FORMA(1)	HISTORICAL	PRO F
	(IN 000'S)			
BOOK VALUE PER SHARE				
Common stock and Class B common stock				
June 30, 2001	$11.33	$12.95	$ 4.60	$
December 31, 2000	9.34		4.84	
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS				
For the twelve months ended June 30, 2001			(1.65)	(
For the twelve months ended December 31, 2000	(0.25)	(0.65)		

BASIC AND DILUTED EARNINGS (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE				
For the twelve months ended June 30, 2001......			(1.65)	(
For the twelve months ended December 31, 2000......................................	(0.41)	(0.84)		
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE				
For the twelve months ended June 30, 2001......			(1.65)	(
For the twelve months ended December 31, 2000......................................	(0.41)	(0.84)		

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(1) Pro forma information gives effect to the acquisition by USA of Expedia as well as acquisitions made by USA and Expedia in 2000 and 2001. See "Unaudited Pro Forma Combined Condensed Financial Statements."

(2) The equivalent pro forma per share data for Expedia is computed by multiplying USA's pro forma per share information by the mid-point of the range of USA common stock exchange ratios for each share of Expedia Class B common stock (0.663). The exchange ratio does not consider the USA preferred stock or USA warrants exchanged. See "What You Will Receive in the Merger" for more information.

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COMPARATIVE PER SHARE MARKET PRICE INFORMATION

The following table sets forth the high and low sale prices for a share of USA common stock and for a share of Expedia common stock, rounded up to the nearest eighth for the periods indicated. Neither USA nor Expedia, nor any of their respective predecessors, has ever paid any cash dividends in respect of their respective shares of common stock. Neither USA nor Expedia has declared any cash dividends. The prices are as quoted on Nasdaq, based on published financial sources.

	USA COMMON STOCK		C
	HIGH	LOW	HIGH
1998			
First Quarter..	14.53	11.86	N/A
Second Quarter...	13.63	11.38	N/A
Third Quarter..	15.25	9.72	N/A
Fourth Quarter...	17.38	7.59	N/A
1999			
First Quarter..	21.22	15.75	N/A
Second Quarter...	21.50	17.13	N/A
Third Quarter..	24.06	19.38	N/A
Fourth Quarter...	27.97	18.00	54.94
2000			
First Quarter..	28.34	19.63	38.38
Second Quarter...	23.44	17.25	21.75
Third Quarter..	25.44	20.50	21.00

Fourth Quarter	22.00	16.81	16.44
2001			
First Quarter	24.44	18.00	17.88
Second Quarter	28.00	21.06	46.60
Third Quarter (through August 16, 2001)	28.04	24.48	51.19

On July 13, 2001, the last trading date prior to the public announcement of the proposed transactions, USA common stock closed at $25 17/64 per share and Expedia common stock closed at $48 45/64 per share. On , 2001, the most recent practicable date prior to printing of this joint prospectus/proxy statement, USA common stock closed at $ per share and Expedia common stock closed at $ per share. You may obtain more recent stock price quotes from most newspapers or other financial sources and we encourage you to do so.

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WHERE YOU CAN FIND MORE INFORMATION

USA and Expedia file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information we file at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois:

Public Reference Room	New York Regional Office	Chicago Regional Office
450 Fifth Street, N.W.	7 World Trade Center	Citicorp Center, Suite 1400
Room 1024	Suite 1300	500 West Madison Street
Washington, D.C. 20549	New York, New York 10048	Chicago, Illinois 60661-2511

Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from commercial document retrieval services and at the website maintained by the SEC at www.sec.gov.

This joint prospectus/proxy statement is part of a Registration Statement on Form S-4 filed by USA to register with the SEC the USA common stock, USA preferred stock and USA warrants to be issued in the merger. This joint prospectus/proxy statement is also part of a Registration Statement on Form S-4 filed by Expedia to register with the SEC the Expedia Class B common stock to be issued in the recapitalization and the Expedia warrants to be issued in the merger. This joint prospectus/proxy statement also constitutes a prospectus of each of USA and Expedia, as well as being a proxy statement of Expedia for its annual meeting.

As allowed by SEC rules, this joint prospectus/proxy statement does not contain all the information you can find in the Registration Statement or the exhibits to the Registration Statements.

The SEC allows us to "incorporate by reference" information into this joint prospectus/proxy statement, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this joint prospectus/proxy statement, except for any information superseded by information contained directly in this joint prospectus/proxy statement. This joint prospectus/proxy statement incorporates by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about our companies and their financial condition.

USA SEC FILINGS (FILE NO. 0-20570)	PERIOD/FILING DATE
Annual Report on Form 10-K	Year ended December 31, 2000
Quarterly Reports on Form 10-Q	Quarters ended March 31, 2001 and June 30, 2001
Current Reports on Form 8-K	Filed on January 10, 2001, February 1, 2001, March 6, 2001, April 25, 2001, June 6, 2001, June 7, 2001, June 27, 2001, July 16, 2001, July 23, 2001, and July 25, 2001
Proxy Statement	Filed on April 9, 2001

EXPEDIA SEC FILINGS (FILE NO. 000-27429)	PERIOD/FILING DATE
Annual Report on Form 10-K	Year ended June 30, 2001
Current Reports on Form 8-K	Filed on July 19, 2001 and July 27, 2001

USA and Expedia also incorporate by reference into this joint prospectus/proxy statement additional documents that may be filed with the SEC from the date of this joint prospectus/proxy statement to the date of the annual meeting. These include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

USA has supplied all information contained or incorporated by reference in this joint prospectus/ proxy statement relating to USA. Expedia has supplied all such information relating to Expedia, and Microsoft has supplied all such information relating to Microsoft.

If you are a shareholder, we may have sent you some of the documents incorporated by reference, but you can obtain any of them through us, the SEC or the SEC's website as described above. Documents incorporated by reference are available from us without charge, excluding all exhibits unless we have specifically incorporated by reference an exhibit in this joint prospectus/proxy statement. Shareholders may obtain documents incorporated by reference in this joint prospectus/proxy statement by requesting them in writing or by telephone from the proxy solicitator or the appropriate company at the following addresses:

USA Networks, Inc.	Expedia, Inc.
152 West 57th Street	13810 SE Eastgate Way, Suite 400
New York, New York 10019	Bellevue, Washington 98005
Tel: (212) 314-7300	Tel: (425) 564-7200
Attn.: Corporate Secretary	Attn.: Corporate Secretary

or

[LOGO]

156 Fifth Avenue
New York, NY 10010
(212) 929-5500 (collect)
(800) 322-2885 (toll-free)

If you would like to request documents from us, please do so by , 2001 to receive them before the annual meeting.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS JOINT PROSPECTUS/PROXY STATEMENT TO VOTE ON THE TRANSACTIONS AND TO DECIDE WHETHER OR NOT TO MAKE AN ELECTION. INFORMATION CONTAINED ON OUR WEBSITES IS NOT INCORPORATED IN THIS JOINT PROSPECTUS/PROXY STATEMENT, NOR SHOULD YOU RELY ON ANY INFORMATION CONTAINED THEREON TO DETERMINE HOW TO VOTE ON THE TRANSACTIONS AND/OR WHETHER OR NOT TO MAKE AN ELECTION. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM WHAT IS CONTAINED IN THIS JOINT PROSPECTUS/PROXY STATEMENT. THIS JOINT PROSPECTUS/PROXY STATEMENT IS DATED , 2001. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THE JOINT PROSPECTUS/PROXY STATEMENT IS ACCURATE AS OF ANY DATE OTHER THAN THAT DATE, AND NEITHER THE MAILING OF THIS JOINT PROSPECTUS/PROXY STATEMENT TO SHAREHOLDERS NOR THE ISSUANCE OF USA COMMON STOCK, USA PREFERRED STOCK, USA WARRANTS, EXPEDIA CLASS B COMMON STOCK OR NEW EXPEDIA WARRANTS IN THE MERGER OR THE RECAPITALIZATION SHALL CREATE ANY IMPLICATION TO THE CONTRARY.

RISK FACTORS

RISK FACTORS RELATING TO THE TRANSACTIONS

USA WILL EXERCISE SIGNIFICANT CONTROL OVER EXPEDIA

When the transactions are completed, USA will own between 67% and 75% of the outstanding Expedia common equity, depending on the number of Expedia shareholders who elect to receive Expedia Class B common stock in the recapitalization, and in excess of 90% of the total voting power of Expedia. As a result, USA generally will have the ability to control the outcome of any matter submitted for the vote or consent of Expedia shareholders, except where a separate vote of the holders of Expedia common stock is required by Washington law. In addition, USA will also control the board of directors of Expedia. Subject to applicable Washington law and agreements entered into as part of the transactions, USA generally will not be restricted with regard to its ability to control the election of directors of Expedia, to cause the amendment of Expedia's articles of incorporation or bylaws, or generally to exercise a controlling influence over the business and affairs of Expedia. As a result of USA's controlling interest in Expedia, USA will have the power to prevent, delay or cause a change in control of Expedia and could take other actions that might be favorable to USA but not necessarily favorable to other Expedia shareholders.

In addition, because the Expedia board of directors has approved the transactions, Expedia shareholders may not benefit from certain protections afforded by the Washington anti-takeover statute in respect of future agreements with USA or its affiliates. See "Comparison of Rights of Shareholders of Expedia and USA--Summary of Material Differences Between the Current Rights of Expedia Shareholders, the Rights of Expedia Shareholders Following the Transactions and the Rights of USA Stockholders--Business Combination Restrictions" for a more detailed description of the Washington anti-takeover statute.

CONFLICTS OF INTEREST MAY ARISE BETWEEN USA AND EXPEDIA, WHICH MAY NOT BE RESOLVED IN A MANNER THAT DOES NOT ADVERSELY AFFECT EXPEDIA'S BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS

Conflicts of interest may arise between Expedia, on the one hand, and USA and its other affiliates, on the other hand, in areas relating to past, ongoing and future relationships, including corporate opportunities, potential acquisitions or financing transactions, sales or other dispositions by USA of its interest in Expedia and the exercise by USA of its ability to control the management and affairs of Expedia. Conflicts, disagreements or other disputes between Expedia and USA may arise and may not be resolved in a manner that does not adversely affect the business, financial condition or results of operations of Expedia.

For instance, USA is engaged in a diverse range of media and entertainment-related businesses, including businesses that may compete in one or more businesses with Expedia, including Hotel Reservations Network. In addition, USA or its affiliates may acquire additional businesses that may conflict or compete with Expedia. Subject to applicable Washington law, USA is under no obligation, and has not indicated any intention, to share any future business opportunities available to it with Expedia. Expedia's amended and restated articles of incorporation will also include provisions that provide that (1) neither USA nor any of its affiliates will have any duty to refrain from engaging in the same or similar activities or lines of business of Expedia, thereby competing with Expedia, and (2) neither USA nor any of its affiliates will have any duty to communicate or offer corporate opportunities to Expedia and none of them will be liable for breach of any fiduciary duty to Expedia, as a shareholder of Expedia or otherwise, in connection with such opportunities, provided that procedures provided for in Expedia's articles of incorporation are followed.

EXPEDIA'S DIRECTORS AND OFFICERS MAY HAVE INTERESTS IN USA AND ITS SUBSIDIARIES WHICH COULD CREATE POTENTIAL CONFLICTS OF INTEREST

Ownership interests of directors or officers of Expedia in USA common stock, or ownership of directors or officers of USA in Expedia common stock or service as both a director or officer of Expedia and a director, officer or employee of USA, could create or appear to create potential conflicts of interest when directors and officers are faced with decisions that could have different implications for Expedia and USA. Following completion of the transactions, Mr. Diller will become Chairman of the board of directors of Expedia. A number of other members of Expedia's board of directors are also expected to be directors, officers or employees of USA. In addition, following the completion of the transactions and the appointment of the USA nominees to Expedia's board of directors, interlocking relationships may exist between certain members of the board of directors of Expedia and members of the boards of directors of other USA subsidiaries with which Expedia directly competes, including Hotel Reservations Network, Inc., and important suppliers of Expedia which also have strong business relationships with direct competitors of Expedia, including National Leisure Group, Inc. See "Proposal No. 1--Approval of the Merger Agreement--Expedia after the Merger--Management and Operations of Expedia after the Transactions."

AN ACTIVE TRADING MARKET FOR THE SHARES OF USA PREFERRED STOCK, USA WARRANTS AND NEW EXPEDIA WARRANTS MAY NOT DEVELOP

The shares of USA preferred stock, USA warrants and new Expedia warrants to be issued in the merger or to Expedia optionholders are each a new type of security for which there is currently no public market. If these securities are traded after their initial issuance, they may trade at a discount from their initial valuations, depending on prevailing interest rates, the market for similar securities, the price of USA common stock and Expedia common stock, as applicable, the performance of USA or Expedia, as applicable, and other factors. In addition, neither USA nor Expedia knows whether an active trading market will develop for any of these securities.

Microsoft will be receiving a large part of the USA securities issued in the merger. While USA has agreed to have in place a registration statement covering USA securities received by Microsoft in the transactions, we cannot assure you that Microsoft will sell its USA securities or predict the timing or degree of any sales, hedging or other transactions in these securities. If Microsoft does not sell the USA securities it receives in the transactions, the market for the USA preferred stock and USA warrants will be extremely limited even if the maximum number of shares of Expedia Class B common stock is issued in the recapitalization and, as a result, the maximum number of USA securities are issued in the merger. Regardless of the size of the market for these securities, sales, hedging or other transactions by Microsoft and others may also cause these securities to trade at a discount from their initial valuations.

THE PRICE OF USA SECURITIES MAY BE AFFECTED BY FACTORS DIFFERENT FROM THOSE AFFECTING THE PRICE OF EXPEDIA COMMON STOCK

Upon completion of the merger, holders of Expedia Class B common stock will become holders of USA common stock, USA preferred stock and USA warrants. USA's business differs from that of Expedia, and USA's results of operations, as well as the price of USA common stock, USA preferred stock and USA warrants may be affected by factors different from those affecting Expedia's results of operations and the price of Expedia common stock. For a discussion of USA's and Expedia's businesses and certain factors to consider in connection with such businesses, see USA's Annual Report on 10-K for the fiscal year ended December 31, 2000 and Expedia's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, which are incorporated by reference in this joint prospectus/proxy statement.

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THE EXCHANGE RATIOS RELATING TO THE NUMBERS OF SHARES OF USA COMMON STOCK AND USA WARRANTS THAT THE HOLDERS OF EXPEDIA CLASS B COMMON STOCK WILL RECEIVE IN THE MERGER MAY FLUCTUATE AND MAY NOT REFLECT THE VALUE OF THE USA SECURITIES AT THE CLOSING OF THE TRANSACTIONS

The exact number of shares of USA common stock and warrants to acquire USA common stock that USA will issue in exchange for shares of Expedia Class B common stock will vary based on the average closing price of USA common stock over the ten consecutive trading days ending on the second full trading day prior to the annual meeting. The USA common stock and USA warrants are both subject to a collar during the ten trading day measurement period, which provides that the exchange ratio for the common stock will vary based on a USA stock price between $23.00 and $31.00 and the exchange ratio for the warrants will fluctuate based on a USA stock price between $25.75 and $28.25. If the price of the USA common stock at the time of the merger is different from the price set during the measurement period, holders of Expedia Class B common stock will receive securities with a market value that may be higher, or lower, than the values reflected during the measurement period. We cannot tell you what the price of USA common stock will be during the measurement period, at the time we complete the merger or at any other time. We urge you to obtain current market quotations and to call MacKenzie Partners, Inc. toll-free at (800) 322-2885 at any time to obtain updated information concerning the exchange ratios in the merger.

SHAREHOLDERS ELECTING TO RECEIVE SHARES OF EXPEDIA CLASS B COMMON STOCK ARE SUBJECT TO PRORATION IN THE EVENT THAT MORE THAN 37,500,000 SHARES OF EXPEDIA COMMON STOCK ELECT TO RECEIVE EXPEDIA CLASS B COMMON STOCK

Because of possible proration in the recapitalization, holders of Expedia common stock that elect to exchange some or all of their shares for shares of Expedia Class B common stock may not receive Expedia Class B common stock in respect of all of their shares covered by the election form and letter of transmittal. If more than 37,500,000 shares of Expedia common stock have been surrendered for exchange, then the number of shares of Expedia common stock that are exchanged for Expedia Class B common stock will be reduced pro rata, in which event each electing holder will receive his proportionate share of Expedia Class B common stock and retain the rest in Expedia common stock.

THE MIX OF USA COMMON STOCK AND USA PREFERRED STOCK ISSUED IN THE MERGER WILL VARY DEPENDING ON WHETHER FEWER THAN 37,500,000 SHARES OF EXPEDIA CLASS B COMMON STOCK ARE ISSUED IN THE RECAPITALIZATION

The exchange ratio for the USA common stock and USA preferred stock issued for each share of Expedia Class B common stock varies based on the number of shares of Expedia Class B common stock. Generally, the exchange ratio for the USA common stock increases, and the exchange ratio for the USA preferred stock decreases, as the number of shares of Expedia Class B common stock that is issued increases up to 37,500,000. For example, assuming a USA common stock price of $27.00:

- if only Microsoft receives the Expedia Class B common stock with respect to its 33,722,710 shares of Expedia common stock, then each share of Expedia Class B common stock would be converted into 0.5755 of a share of USA common stock, 0.3892 of a share of USA preferred stock and 0.4176 of a USA warrant;

- if a total of 35,500,000 shares of Expedia Class B common stock are issued in the recapitalization, then each share of Expedia Class B common stock would be converted into 0.6116 of a share of USA common stock, 0.3697 of a share of USA preferred stock and 0.4176 of a USA warrant; and

- if the maximum number of shares of Expedia Class B common stock (37,500,000) is issued in the recapitalization, then each share of Expedia Class B common stock would be converted into

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0.6481 of a share of USA common stock, 0.3500 of a share of USA preferred stock and 0.4176 of a USA warrant.

At the time you make your election whether to retain some or all of your shares of Expedia common stock or to receive shares of Expedia Class B common stock in the recapitalization, these exchange ratios will not yet be fixed. The actual package of USA securities you would receive in respect of shares of Expedia Class B common stock that you may elect to receive will be announced by USA as promptly as possible after the annual meeting. For a further description of these exchange ratios, see "What Expedia Shareholders Will Receive in the Merger" and "Proposal No. 1--Approval of the Merger Agreement--Structure of the Transactions--Merger."

VALUE OF USA SECURITIES TO BE RECEIVED IN THE MERGER MAY FLUCTUATE

The number of shares of USA common stock, shares of USA preferred stock and USA warrants to be received in the merger for each share of Expedia Class B common stock will be fixed as of the date of the annual meeting. Therefore, because the market price of USA common stock is subject to fluctuation, the value at the time of the merger of the consideration to be received by the holders of Expedia Class B common stock will depend on the market price of USA common stock at that time. Because of this fluctuation, we cannot assure you that the value at the time of the merger of the consideration to be received by holders of Expedia Class B common stock will be equal to the fair market value. For historical and current market prices of USA common stock, see "Summary--Comparative Per Share Market Price Information."

THE EXCHANGE RATIO RELATING TO THE NUMBER OF USA WARRANTS YOU MAY RECEIVE IN THE MERGER MAY ALSO FLUCTUATE DUE TO A TAX ADJUSTMENT

In order to preserve the tax-free nature of the transactions, USA may, under certain circumstances, decrease the USA warrant exchange ratio and increase the

USA common stock exchange ratio. If this occurs, you will receive fewer USA warrants and more shares of USA common stock. Because the replacement of USA warrants with USA common stock will be determined according to a valuation mechanism that includes certain variables, it is possible that the value of the USA common stock received under this adjustment will be greater than or less than the value of the USA warrants being replaced. At the time that you make your election whether to remain a shareholder of Expedia or to receive shares of Expedia Class B common stock in the recapitalization, this exchange ratio will not yet be fixed. The actual package of USA securities you would receive in respect of shares of Expedia Class B common stock that you may elect to receive will be announced by USA promptly after the annual meeting.

USA/EXPEDIA MAY NOT REALIZE ALL OF THE ANTICIPATED BENEFITS OF THE TRANSACTIONS

The success of the transactions will depend, in part, on the ability of USA and Expedia to realize certain anticipated growth opportunities from integrating the businesses of Expedia with the businesses of USA and its affiliates. We cannot assure you that this integration will result in the realization of the full anticipated benefits of the growth opportunities or that these benefits will be achieved within the anticipated time frame or at all. In addition, legal arrangements between USA or its affiliates and certain third parties may restrict the ability of the parties to integrate parts of their businesses with the businesses of USA or its affiliates.

MICROSOFT WILL BE ABLE TO COMPETE WITH EXPEDIA

In connection with the merger, Expedia and Microsoft have agreed to terminate the shareholder agreement between Microsoft and Expedia, which agreement includes, among other things, an

agreement by Microsoft not to compete with Expedia. As a result Microsoft will be able to compete with Expedia after the transactions, which could have a negative impact on Expedia's business.

FAILURE TO COMPLETE THE TRANSACTIONS COULD NEGATIVELY IMPACT EXPEDIA'S STOCK PRICE AND FUTURE BUSINESS AND OPERATIONS

If the merger is not completed for any reason, Expedia may be subject to the following material risks:

- the price of Expedia common stock may decline to the extent that the current market price of Expedia common stock reflects a market assumption that the transactions will be completed;

- costs related to the transactions, such as certain legal, accounting and financial advisor fees, must be paid even if the transactions are not completed; and

- Microsoft may agree to a subsequent transaction in which some or all of the outstanding shares of Expedia common stock may be transferred with or without the consent and approval of Expedia's board of directors on terms which may be less favorable to Expedia shareholders than the terms contemplated by the merger agreement.

RISK FACTORS RELATING TO USA

USA DEPENDS ON ITS KEY PERSONNEL

USA is dependent upon the continued contributions of its senior corporate management, particularly Barry Diller, and certain key employees for its future success. Mr. Diller is the Chairman of the Board and Chief Executive Officer of USA. Mr. Diller does not have an employment agreement with USA, although he has been granted options to purchase a substantial number of shares of USA common stock.

If Mr. Diller no longer serves in his positions at USA, the business of USA, as well as the market price of USA common stock, could be substantially adversely affected. In addition, under the terms of a governance agreement, dated as of October 19, 1997, among Universal Studios, Inc., HSN, Inc. (now USA), Mr. Diller and Liberty Media Corporation, if Mr. Diller no longer serves as Chief Executive Officer of USA, then certain restrictions on Universal Studios' conduct will be eliminated, and Universal Studios' ability to increase its equity interest in USA will be accelerated. Due to current regulatory restrictions of the Federal Communications Commission (the "FCC") on foreign ownership and on the ability of Liberty Media and Universal Studios, which is owned by Vivendi Universal S.A., to exercise voting control over entities that hold broadcast licenses, in the event that Mr. Diller were no longer Chief Executive Officer of USA, became disabled or otherwise no longer exercised control over USA, USA would be required either to divest itself of its broadcast licenses, if any, so that Universal Studios and Liberty Media could exercise control over USA or otherwise enter into arrangements relating to the control of USA in compliance with FCC law. We cannot assure you that USA will be able to retain the services of Mr. Diller or any other members of senior management or key employees of USA.

USA IS CONTROLLED BY MR. DILLER AND IN HIS ABSENCE, WILL BE CONTROLLED BY VIVENDI UNIVERSAL AND LIBERTY MEDIA

Mr. Diller, through entities he controls, currently beneficially owns or has the right to vote 100% of the shares of Expedia Class B common stock, par value $.01 per share, of USA, which is sufficient to control the outcome of any matter submitted to a vote or for the consent of USA shareholders with respect to which holders of USA common stock and USA Class B common stock vote together as a single class. See "Description of USA Capital Stock." As of July 31, 2001 (but without giving effect to

the issuance of any USA securities upon exercise of options held by Mr. Diller or upon exchange of shares of USANi LLC or Home Shopping Network, Inc., Mr. Diller owns or has the right to vote approximately 14.5% of the outstanding USA common stock, 100% of the outstanding USA Class B common stock and 71.6% of the outstanding total voting power of USA common stock and USA Class B common stock. Mr. Diller, subject to the terms of a stockholders agreement, dated as of October 19, 1997 (the "STOCKHOLDERS AGREEMENT"), among Universal Studios, Liberty Media, Mr. Diller, USA and The Seagram Company Ltd. (now controlled by Vivendi Universal S.A.), effectively controls the outcome of all matters submitted to a vote or for the consent of USA shareholders (other than with respect to the election by the holders of USA common stock of 25% of the members of the board of directors of USA (rounded up to the nearest whole number) and certain matters as to which a separate class vote of the holders of USA common stock is required under Delaware law).

Under the Stockholders Agreement, Mr. Diller, Universal Studios and Liberty Media have agreed that USA securities owned by any of Mr. Diller, Universal Studios, Liberty Media and certain of their affiliates will not be voted in favor of the taking of any action with respect to certain fundamental changes relating to USA, except with the consent of each of Mr. Diller, Universal Studios and Liberty Media. Accordingly, in respect of these matters, each of Mr. Diller, Universal Studios and Liberty Media has the ability to veto, in his or its sole discretion, the taking of any action with respect to these matters.

In addition, we cannot assure you that Mr. Diller, Universal Studios and Liberty Media will agree in the future on any such transaction or action, in which case USA would not be able to engage in such transaction or take such action.

In addition to the specific requirements of the Stockholders Agreement, the existence of a controlling shareholder of USA may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from seeking to acquire, a majority of the outstanding USA securities. A third party would be required to negotiate any such transaction with Mr. Diller, Universal Studios and Liberty Media, and the interests of any one or more of such persons as shareholders may be different from the interests of other USA shareholders.

Upon Mr. Diller's permanent departure from USA, USA may change in various fundamental respects. For example, generally, Vivendi Universal, through Universal Studios, would be able to control USANi LLC, through which a substantial portion of USA's businesses are owned, and also would have the ability to seek to cause a spinoff or other disposition of USA's broadcast businesses, if any, after which Vivendi Universal could directly control USA. USA currently is in the process of selling its broadcast stations and, upon such sale, there would no longer be any foreign ownership restrictions on the ability of Vivendi Universal to control USA. In addition, Universal Studios and Liberty Media have certain agreements relating to the management and governance of USA, as well as the voting and disposition of their shares of USA stock.

RISK FACTORS RELATING TO EXPEDIA

EXPEDIA'S OPERATING RESULTS ARE VOLATILE AND DIFFICULT TO PREDICT

Expedia's annual and quarterly operating results have fluctuated in the past and may fluctuate significantly in the future due to a variety of factors, many of which are outside of its control. Because Expedia's operating results are volatile and difficult to predict, Expedia believes that quarter-to-quarter comparisons of its operating results are not a good indication of its future performance. It is likely that in some future quarter its operating results will fall below the expectations of securities analysts or investors. In this event, the trading price of Expedia's common stock may decline significantly.

Factors that may cause Expedia to fail to meet the expectations of securities analysts or investors include the following:

- its inability to obtain travel products on satisfactory terms from its travel suppliers;

- the ability of its competitors to offer new or enhanced websites, services or products or similar services or products with lower prices;

- its inability to obtain new customers at reasonable cost, retain existing customers or encourage repeat purchases;

- decreases in the number of visitors to its websites or its inability to convert visitors to its websites into customers;

- its inability to adequately maintain, upgrade and develop its websites, the systems that it uses to process customers' orders and payments or its computer network;

- its inability to retain existing airlines, hotels, rental car companies and other suppliers of travel services or to obtain new travel suppliers;

- fluctuating gross margins due to a changing mix of revenues;
- the termination of existing relationships with key service providers or failure to develop new ones;
- the amount and timing of operating costs relating to expansion of its operations; and
- economic conditions specific to the Internet, online commerce and the travel industry.

EXPEDIA DEPENDS ON ITS RELATIONSHIPS WITH TRAVEL SUPPLIERS AND COMPUTER RESERVATION SYSTEMS AND ADVERSE CHANGES IN THESE RELATIONSHIPS COULD AFFECT ITS INVENTORY OF TRAVEL OFFERINGS

Expedia's business model relies on relationships with travel suppliers, and it would be negatively affected by adverse changes in these relationships. Expedia depends on travel suppliers to enable it to offer its customers comprehensive access to travel services and products. Consistent with industry practices, Expedia currently has few agreements with its travel suppliers obligating them to sell services or products through Expedia's websites. It is possible that travel suppliers may choose not to make their inventory of services and products available through online distribution. Travel suppliers could elect to sell exclusively through other sales and distribution channels or to restrict Expedia's access to their inventory, either of which could significantly decrease the amount or breadth of Expedia's inventory of available travel offerings. Of particular note is Orbitz, the airline direct-distribution website, which was launched in June 2001 and is owned by American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines and United Air Lines. Forester Research reports that Orbitz is the only website for consumers to find unpublished special fares on these and at least 23 other airlines. Additionally, American Airlines, United Air Lines, Northwest Airlines, Continental Air Lines, US Airways Group and America West Airlines entered into a joint venture to launch a separate site known as "Hotwire," which offers unpublished special fares on certain carriers. If a substantial number of Expedia's airline suppliers collectively agree or choose to restrict their special fares solely to Orbitz or Hotwire, such action may have a material adverse affect on Expedia's business. Expedia also depends on travel suppliers for advertising revenues. Adverse changes in any of these relationships, whether due to Orbitz, Hotwire or otherwise, could reduce the amount of inventory that Expedia is able to offer through its websites.

A DECLINE IN COMMISSION RATES AND FEES OR THE ELIMINATION OF COMMISSIONS COULD REDUCE EXPEDIA'S REVENUES AND MARGINS

A substantial majority of Expedia's online revenues depends on the commissions and fees paid by travel suppliers for bookings made through its online travel service. Generally, Expedia does not have written commission agreements with its suppliers. As is standard practice in the travel industry, Expedia relies on informal arrangements for the payment of commissions. Travel suppliers are not obligated to pay any specified commission rate for bookings made through its websites. Expedia cannot assure you

that airlines, hotel chains or other travel suppliers will not reduce current industry commission rates or eliminate commissions entirely, either of which could reduce Expedia's revenues and margins.

EXPEDIA EXPECTS ITS ACCOUNTING LOSSES TO CONTINUE

To date, Expedia has incurred substantial net losses due mainly to stock-based compensation and acquisitions made by Expedia since its initial public offering. For the fiscal year ended June 30, 2001, Expedia had a net loss of $78.1 million. If its revenues do not grow as expected, or if increases in its expenses are not in line with its plans, there could be a material adverse effect on Expedia's business, operating results and financial condition.

EXPEDIA COMPETES WITH A VARIETY OF COMPANIES WITH RESPECT TO EACH PRODUCT OR SERVICE IT OFFERS

These competitors include:

- Internet travel agents such as Travelocity.com, Orbitz.com and American Express Interactive, Inc.;

- local, regional, national and international traditional travel agencies;

- consolidators and wholesalers of airline tickets, hotels and other travel products, including Hotwire.com, Cheaptickets.com, Priceline.com and Hotel Reservations Network, Inc.;

- airlines, hotels, rental car companies, cruise operators and other travel service providers, whether working individually or collectively, some of which are suppliers to Expedia's websites; and

- operators of travel industry reservation databases.

In addition to the traditional travel agency channel, many travel suppliers also offer their travel services as well as third-party travel services directly through their own websites. These travel suppliers include many suppliers with which Expedia does business. Suppliers also sell their own services directly to consumers, predominantly by telephone. As the market for online travel services grows, Expedia believes that travel suppliers, traditional travel agencies, travel industry information providers and other companies will increase their efforts to develop services that compete with Expedia's services by selling inventory from a wide variety of suppliers. Expedia cannot assure you that its online operations will compete successfully with any current or future competitors.

Many of Expedia's competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than Expedia has and may enter into strategic or commercial relationships with larger, more established and better-financed companies. Some of Expedia's competitors may be able to secure services and products from travel suppliers on more favorable terms, devote greater resources to marketing and promotional campaigns and commit more resources to website and systems development than Expedia is able to devote. In addition, the introduction of new technologies and the expansion of existing technologies may increase competitive pressures. Increased competition may result in reduced operating margins, as well as loss of market share and brand recognition. Expedia cannot assure you that it will be able to compete successfully against current and future competitors. Competitive pressures faced by Expedia could have a material adverse effect on its business, operating results and financial condition.

IF EXPEDIA FAILS TO INCREASE ITS BRAND RECOGNITION AMONG CONSUMERS, IT MAY NOT BE ABLE TO ATTRACT AND EXPAND ITS ONLINE TRAFFIC

Expedia believes that maintaining and enhancing the Expedia-Registered Trademark- brand is a critical aspect of its efforts to attract and expand its online traffic. The number of Internet sites that offer competing services increases the importance of maintaining and enhancing brand recognition. Promotion of the Expedia brand will depend largely on its success in providing a high-quality online experience

supported by a high level of customer service. In addition, Expedia intends to spend substantial amounts on marketing and advertising with the intention of continuing to expand its brand recognition to attract and retain online users and to respond to competitive pressures. However, Expedia cannot assure you that these expenditures will be effective to promote its brand or that its marketing efforts generally will achieve its goals.

DECLINES OR DISRUPTIONS IN THE TRAVEL INDUSTRY GENERALLY COULD REDUCE EXPEDIA'S REVENUES

Expedia relies on the health and growth of the travel industry. Travel is highly sensitive to business and personal discretionary spending levels, and thus tends to decline during general economic downturns. In addition, other adverse trends or events that tend to reduce travel are likely to reduce its revenues. These may include:

- price escalation in the airline industry or other travel-related industries;

- increased occurrence of travel-related accidents;

- airline or other travel-related strikes;

- political instability;

- regional hostilities and terrorism; and

- bad weather.

INTERRUPTIONS IN SERVICE FROM THIRD PARTIES COULD IMPAIR THE QUALITY OF EXPEDIA'S SERVICE

Expedia relies on third-party computer systems and third-party service providers, including the computerized central reservation systems of the airline, hotel and car rental industries to make airline ticket, hotel room and car rental reservations and credit card verifications and confirmations.

Currently, a majority of Expedia's transactions are processed through Worldspan, L.P. and Pegasus Solutions, Inc. Expedia relies on TRX, Inc. and PeopleSupport, Inc. to provide a significant portion of its telephone and email customer support, as well as to print and deliver airline tickets as necessary. Microsoft also services a significant amount of Expedia's information systems as part of an amended and restated services agreement, which Microsoft has agreed to extend through September 2002. Any interruption in these third-party services or a deterioration in their performance could impair the quality of Expedia's service. If its arrangement with any of these third parties is terminated, Expedia may not find an alternate source of systems support on a timely basis or on commercially reasonable terms. In particular, any migration from the Worldspan system could require a substantial commitment of time and resources and hurt Expedia's business.

EXPEDIA'S SUCCESS DEPENDS ON MAINTAINING THE INTEGRITY OF EXPEDIA'S SYSTEMS AND INFRASTRUCTURE

In order to be successful, Expedia must continue to provide reliable, real-time access to its systems for its customers and suppliers. As its operations continue to grow in both size and scope, domestically and internationally, Expedia will need to improve and upgrade its systems and infrastructure to offer an increasing number of customers and travel suppliers enhanced products, services, features and functionality. The expansion of Expedia's systems and infrastructure will require it to commit substantial financial, operational and technical resources before the volume of business increases, with no assurance that the volume of business will increase. Consumers and suppliers will not tolerate a service hampered by slow delivery times, unreliable service levels or insufficient capacity, any of which could have a material adverse effect on Expedia's business, operating results and financial condition.

In this regard, Expedia's operations face the risk of systems failures. Expedia's systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, break-ins, earthquake and similar events. Expedia's business interruption insurance may not adequately compensate it for losses that may occur. The occurrence of a natural disaster or unanticipated problems at Expedia's facilities in Washington or Travelscape's facilities in Nevada could cause interruptions or delays in Expedia's business, loss of data or render it unable to process reservations. In addition, the failure of Expedia's computer and communications systems to provide the data communications capacity required by it, as a result of human error, natural disaster or other operational disruptions, could result in interruptions in its service. The occurrence of any or all of these events could adversely affect Expedia's reputation, brand and business.

EXPEDIA'S BUSINESS IS EXPOSED TO RISKS ASSOCIATED WITH ONLINE COMMERCE SECURITY AND CREDIT CARD FRAUD

Consumer concerns over the security of transactions conducted on the Internet or the privacy of users may inhibit the growth of the Internet and online commerce. To transmit confidential information such as customer credit card numbers securely, Expedia relies on encryption and authentication technology. Unanticipated events or developments could result in a compromise or breach of the systems Expedia uses to protect customer transaction data. Furthermore, Expedia's servers may also be vulnerable to viruses transmitted via the Internet. While Expedia proactively checks for intrusions into its infrastructure, a new and undetected virus could cause a service disruption.

To date, Expedia's results have been impacted due to reservations placed with fraudulent credit card data. Expedia records these reserves because, under current credit card practices and the rules of the Airline Reporting Corporation, Expedia may be held liable for fraudulent credit card transactions on its websites and other payment disputes with customers. Since discovering this fraudulent activity, Expedia has put additional anti-fraud measures in place above and beyond its existing credit card verification procedures; however, a failure to control fraudulent credit card transactions adequately could further adversely affect its business.

RAPID TECHNOLOGICAL CHANGES MAY RENDER EXPEDIA'S TECHNOLOGY OBSOLETE OR DECREASE THE COMPETITIVENESS OF ITS SERVICES

To remain competitive in the online travel industry, Expedia must continue to enhance and improve the functionality and features of its websites. The Internet and the online commerce industry are rapidly changing. In particular, the online travel industry is characterized by increasingly complex systems and infrastructures. If competitors introduce new services embodying new technologies, or if new industry standards and practices emerge, Expedia's existing websites and proprietary technology and systems may become obsolete. Expedia's future success will depend on its ability to do the following:

- enhance its existing services;

- develop and license new services and technologies that address the increasingly sophisticated and varied needs of its prospective customers and suppliers; and

- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

Developing Expedia's websites and other proprietary technology entails significant technical and business risks. Expedia may use new technologies ineffectively or Expedia may fail to adapt its websites, transaction-processing systems and network infrastructure to customer requirements or emerging industry standards. If Expedia faces material delays in introducing new services, products and

enhancements, its customers and suppliers may forego the use of Expedia's services and use those of its competitors.

EXPEDIA'S INTERNATIONAL OPERATIONS INVOLVE RISKS RELATING TO TRAVEL PATTERNS AND PRACTICES AND INTERNET-BASED COMMERCE

Expedia operates in the United Kingdom, Germany, Canada and Belgium and intends to expand its operations to other countries. In order to achieve widespread acceptance in each country Expedia enters, Expedia believes that it must tailor its services to the unique customs and cultures of that country. Learning the customs and cultures of various countries, particularly with respect to travel patterns and practices, is a difficult task and Expedia's failure to do so could slow its growth in those countries.

In addition, Expedia faces additional risks in operating internationally, such as:

- delays in the development of the Internet as a broadcast, advertising and commerce medium in international markets;

- difficulties in managing operations due to distance, language and cultural differences, including issues associated with establishing management systems infrastructures in individual foreign markets;

- unexpected changes in regulatory requirements;

- tariffs and trade barriers and limitations on fund transfers;

- difficulties in staffing and managing foreign operations;

- potential adverse tax consequences;

- exchange rate fluctuations; and

- increased risk of piracy and limits on Expedia's ability to enforce its intellectual property rights.

Any of these factors could harm its business. Expedia does not currently hedge its foreign currency exposures.

EXPEDIA MAY BE FOUND TO HAVE INFRINGED ON INTELLECTUAL PROPERTY RIGHTS OF OTHERS WHICH COULD EXPOSE IT TO SUBSTANTIAL DAMAGES AND RESTRICT ITS OPERATIONS

Expedia could face claims that it has infringed the patents, copyrights or other intellectual property rights of others. In addition, Expedia may be required to indemnify travel suppliers for claims made against them. Any claims against Expedia could require it to spend significant time and money in litigation, delay the release of new products or services, pay damages, develop new intellectual property or acquire licenses to intellectual property that is the subject of the infringement claims. These licenses, if required, may not be available on acceptable terms or at all. As a result, intellectual property claims against Expedia could have a material adverse effect on its business, operating results and financial condition.

BECAUSE EXPEDIA'S MARKET IS SEASONAL, ITS QUARTERLY RESULTS WILL FLUCTUATE

Expedia's business experiences seasonal fluctuations, reflecting seasonal trends for the products and services offered by its websites. For example, demand for travel bookings may increase in anticipation of summer vacations and holiday periods, but online travel bookings may decline with reduced Internet usage during the summer months. These factors could cause Expedia's revenues to fluctuate from quarter to quarter. Expedia's results may also be affected by seasonal fluctuations in the inventory made available to its service by travel suppliers.

EXPEDIA'S SUCCESS DEPENDS IN LARGE PART ON THE CONTINUING EFFORTS OF A FEW INDIVIDUALS AND ITS ABILITY TO CONTINUE TO ATTRACT, RETAIN AND MOTIVATE HIGHLY SKILLED EMPLOYEES

Expedia depends substantially on the continued services and performance of its senior management, particularly Richard N. Barton, its chief executive officer and president. These individuals may not be able to fulfill their responsibilities adequately and may not remain with Expedia. The loss of the services of any executive officers or other key employees could hurt Expedia's business.

As of June 30, 2001, Expedia employed a total of 846 full-time employees. In order to achieve its anticipated growth, Expedia will need to hire additional qualified employees. If Expedia does not succeed in attracting new employees and retaining and motivating its current personnel, its business will be adversely affected.

EXPEDIA'S WEBSITES RELY ON INTELLECTUAL PROPERTY, AND EXPEDIA CANNOT BE SURE THAT THIS INTELLECTUAL PROPERTY IS PROTECTED FROM COPY OR USE BY OTHERS, INCLUDING POTENTIAL COMPETITORS

Expedia regards much of its content and technology as proprietary and tries to protect its proprietary technology by relying on trademarks, copyrights, trade secret laws and confidentiality agreements with consultants. In connection with its license agreements with third parties, Expedia seeks to control access to and distribution of its technology, documentation and other proprietary information. Even with all of these precautions, it is possible for someone else to copy or otherwise obtain and use Expedia's proprietary technology without its authorization or to develop similar technology independently. Effective trademark, copyright and trade secret protection may not be available in every country in which Expedia's services are made available through the Internet, and policing unauthorized use of its proprietary information is difficult and expensive. Expedia cannot be sure that the steps it has taken will prevent misappropriation of its proprietary information. This misappropriation could have a material adverse effect on Expedia's business. In the future, Expedia may need to go to court to enforce its intellectual property rights, to protect its trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation might result in substantial costs and diversion of resources and management attention.

Expedia currently licenses from third parties, including Microsoft, some of the technologies incorporated into its websites. As Expedia continues to introduce new services that incorporate new technologies, it may be required to license additional technology from Microsoft and others. Expedia cannot be sure that these third-party technology licenses will continue to be available on commercially reasonable terms, if at all.

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THE ANNUAL MEETING

This joint prospectus/proxy statement is furnished in connection with the solicitation of proxies by Expedia's board of directors from the holders of Expedia common stock for use at the annual meeting. This joint prospectus/proxy statement, other than "Proposal No. 4--Election of Directors" and "Proposal No. 5--Adoption of 2001 Stock Plan," is also furnished to Expedia shareholders as a prospectus of USA in connection with the issuance by USA of the shares of USA common stock, shares of USA preferred stock and USA warrants in connection with the merger and as a prospectus of Expedia in connection with the issuance by Expedia of the Expedia Class B common stock in the recapitalization and the new Expedia warrants in the merger.

TIME AND PLACE; PURPOSES

The annual meeting will be held at , on , 2001, at a.m., local time. At the annual meeting (and any adjournment or postponement thereof), Expedia shareholders will be asked to consider and vote upon the following proposals relating to the transactions:

- a proposal to approve the merger agreement and the transactions contemplated thereby. Under the terms of the merger agreement, among other things:

  -- USA will contribute to Taipei travel and media-related assets;

  -- Expedia will be recapitalized to have two classes of common stock, with shareholders of Expedia electing to (1) retain some or all of their shares of Expedia common stock, which will remain outstanding following the merger and will entitle their holder to receive new Expedia warrants in the merger, or (2) exchange some or all of their shares of common stock for shares of Expedia Class B common stock, which will then be converted into a package of USA securities in the merger; and

  -- Taipei will merge with and into Expedia, with Expedia surviving as a public company controlled by USA;

- a proposal to amend and restate Expedia's articles of incorporation to, among other things, create a new class of common stock, Expedia Class B common stock, and conform Expedia's articles of incorporation to those of USA's other public subsidiaries; and

- a proposal to terminate the shareholder agreement, dated as of October 1, 1999, between Expedia and Microsoft Corporation.

At the annual meeting (and any adjournment or postponement thereof), Expedia shareholders will also be asked to consider and vote upon the following proposals:

- a proposal to elect seven directors to serve until the 2002 annual meeting of Expedia shareholders, four of whom will be replaced upon closing of the transactions;

- a proposal to adopt the Expedia, Inc. 2001 Stock Plan; and

- any other matter that may properly come before the annual meeting.

Representatives from Deloitte & Touche, independent certified public accountants for Expedia, are expected to be present at the annual meeting, to have an opportunity to make a statement if they so desire and to be available to respond to appropriate questions.

RECORD DATE; VOTING RIGHTS

The board of directors of Expedia has fixed the close of business on , 2001 as the record date for the determination of the holders of Expedia common stock entitled to receive notice of and to vote at the annual meeting. Only holders of record of shares of Expedia common stock on the record

date are entitled to vote at the annual meeting. On , 2001, the record date, there were shares of Expedia common stock outstanding and entitled to vote at the annual meeting held by approximately holders of record.

VOTES REQUIRED FOR APPROVAL

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Expedia common stock is necessary to constitute a quorum at the annual meeting. The affirmative vote of holders of a majority of the outstanding shares of Expedia common stock entitled to vote is required to approve each of the proposals relating to the transactions being presented to Expedia shareholders at the annual meeting. The affirmative vote of holders of a plurality of the outstanding shares of common stock represented in person or by proxy at the meeting is required to elect the seven nominees to the board of directors of Expedia. The affirmative vote of holders of a majority of the outstanding shares of common stock represented in person or by proxy at the meeting is required to approve the proposed adoption of the Expedia, Inc. 2001 Stock Plan.

The directors and officers of Expedia beneficially own approximately 7,182,888 shares of Expedia common stock, representing approximately 13% of Expedia's total voting power and Microsoft and its affiliates beneficially own approximately 33,722,710 shares of Expedia common stock, representing approximately 67% of Expedia's total voting power as of , 2001. Under the voting and election agreement, Microsoft and its affiliates are obligated to vote in favor of each of the proposals relating to the transactions and to elect to receive Expedia Class B common stock in respect of all their Expedia common stock. Accordingly, approval of each of the proposals relating to the transactions is assured.

VOTING AND REVOCATION OF PROXIES

All shares of Expedia common stock represented by properly executed proxies received prior to or at the annual meeting and not revoked will be voted in accordance with the instructions indicated in such proxies. If no instructions are indicated on a properly executed returned proxy, such proxies will be voted FOR the approval of each of the proposals described above. Proxies voted against all of the proposals will not be voted in favor of any adjournment or postponement of the annual meeting for the purpose of soliciting additional proxies.

Abstentions may be specified on all proposals. A properly executed proxy marked ABSTAIN with respect to any proposal will be counted as present for purposes of determining whether there is a quorum. Because the affirmative votes required for approval of each of the proposals relating to the transactions are, as described above, a percentage of the combined voting power of the outstanding shares entitled to vote, whether or not voted, a proxy marked ABSTAIN with respect to any proposal relating to the transactions will have the effect of a vote against such proposal. In addition, the failure of a shareholder of Expedia to return a proxy and to vote in person at the annual meeting will have the effect of a vote against the proposals relating to the transactions. Abstentions with respect to the proposals to elect directors and to adopt the Expedia, Inc. 2001 Stock Plan will not have the effect of counting for or against these proposals.

Shares represented by "broker non-votes," which are shares held by brokers or nominees that are represented at a meeting but with respect to which the broker or nominee is not empowered to vote on a particular proposal, will also be counted for purposes of determining whether there is a quorum at the annual meeting but will not be voted. Those shares will be counted for purposes of determining the combined voting power of Expedia common stock outstanding on the record date and, accordingly, will have the same effect as a vote cast against each of the proposals relating to the transactions.

A shareholder may revoke its proxy at any time prior to its use by delivering to the Secretary of Expedia a signed notice of revocation or a later-dated, signed proxy or by attending the annual meeting

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and voting in person. Attendance at the annual meeting will not in itself constitute the revocation of a proxy.

The cost of solicitation of proxies will be paid by Expedia. In addition to solicitation by mail, officers and regular employees of Expedia may solicit proxies in person or by mail, telephone, facsimile or other means of electronic transmission. The extent as to which this is necessary depends entirely upon how promptly proxy cards are returned. Arrangements will be made with brokerage houses and other custodians, nominees and fiduciaries to send the proxy materials to beneficial owners and Expedia will, upon request, reimburse such brokerage houses and custodians for their reasonable expenses in so doing. Shareholders are urged to send in their proxies without delay.

SHAREHOLDERS THAT DESIRE TO ELECT TO EXCHANGE THEIR SHARES OF EXPEDIA COMMON STOCK FOR EXPEDIA CLASS B COMMON STOCK IN THE RECAPITALIZATION, AND AS A RESULT, RECEIVE USA SECURITIES IN THE MERGER, MUST, PRIOR TO THE ELECTION DEADLINE, SEND IN THEIR STOCK CERTIFICATES COVERED BY THE ELECTION AND/OR ANY OTHER REQUIRED DOCUMENTATION TOGETHER WITH THE ELECTION FORM AND LETTER OF TRANSMITTAL ENCLOSED WITH THIS DOCUMENT.

SHAREHOLDERS SHOULD NOT SEND IN ANY STOCK CERTIFICATES WITH THEIR PROXY CARDS.

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PROPOSAL NO. 1--APPROVAL OF THE MERGER AGREEMENT

STRUCTURE OF THE TRANSACTIONS

Each of the Boards of Directors of USA, Expedia and Microsoft has approved and adopted the merger agreement and the transactions. The transactions will consist of the following steps:

CONTRIBUTION BY USA OF TRAVEL AND MEDIA-RELATED ASSETS

Prior to the effective time of the merger, but subject to the conditions set forth in the merger agreement being satisfied or waived, USA will contribute or cause to be contributed to Taipei, the entity which will merge with Expedia, the following assets, each of which is described in further detail below:

- NLG OPTION--a two-year option to acquire, at USA's purchase price therefor, all of the outstanding equity of National Leisure Group, Inc., a provider of vacation and cruise packages, which USA has entered into an agreement to acquire;

- TRAVEL CHANNEL OPTION--a two-year option to purchase one third of USA's initial equity interest in a travel channel for a U.S. audience that USA is currently developing. The exercise price of the travel channel option will equal one-third of the development costs USA incurs, plus interest, up to the date of exercise in developing the travel channel; and

- USA MEDIA, LLC--all of the outstanding equity of USA Media, LLC, a wholly owned subsidiary of USA, which has as its sole asset the right to advertising, marketing and promotion time, valued at $15 million for each of the next five years, on the various media outlets owned by USA or its controlled subsidiaries.

NLG OPTION. This option is a two-year option commencing on the completion of the merger to acquire 100% of the equity of National Leisure Group then owned by USA. USA has entered into an agreement to acquire 100% of the equity of National Leisure Group. The terms of this option are attached as an exhibit to the registration statements of USA and Expedia of which this joint prospectus/ proxy statement is a part.

The exercise price for the option will be equal to the price, whether comprised of stock, cash and and/or other consideration, paid by USA to acquire National Leisure Group. The exercise price will be payable in cash and Expedia common stock, in the same cash to stock ratio used by USA to acquire National Leisure Group, PROVIDED that Expedia will not be required to pay more than 50% of the exercise price in cash. If Expedia elects, USA will lend Expedia the cash portion of the consideration at USA's costs of funds not to exceed the prime rate plus 1%. The stock portion, which will be registered by Expedia upon USA's request, will be based on the average closing share price of Expedia common stock on Nasdaq for the five trading days preceding Expedia's acquisition of National Leisure Group.

In the event that USA desires to transfer all or a part of its interest in National Leisure Group to a non-affiliate of USA during the term of the option, either alone or as a part of a larger transaction, Expedia would have, at its choice, (1) a right of first refusal with respect to that transfer, or (2) the right to exercise the option to acquire National Leisure Group prior to the time that USA enters into a definitive agreement relating to its transfer. If Expedia declines to exercise either of these choices, the option as it relates to the piece of National Leisure Group covered by the transfer would expire immediately when USA enters into a definitive agreement relating to the transfer having terms no less favorable to USA than the terms declined by Expedia.

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In the event that USA does not acquire National Leisure Group within six months of the merger with Expedia described in this document, USA will be required to pay Expedia $20 million plus interest accrued at an annual rate of 7%.

TRAVEL CHANNEL OPTION. This option is a two-year option commencing upon completion of the merger to acquire one-third of the original equity and economic interest in a travel channel currently under development by USA. The terms of this option are attached as exhibit to the registration statements of USA and Expedia of which this joint prospectus/proxy statement is a part.

The travel channel will be USA's exclusive vehicle in the United States whose primary activities are the sale of travel and travel-related services, such as airline tickets, hotel rooms, cruises, vacation packages and other travel services (which we refer to in this document collectively as "TRAVEL SERVICES") to customers over the television, regardless of the medium through which such travel services are purchased. USA has agreed to provide the travel channel with support for cable affiliation relationships, as well as various other operating activities, all at USA's cost plus overhead attributable to the travel channel. Expedia will be entitled to on-air branding arrangements and rights for sales of travel packages on the travel channel equivalent to those of any third party.

The exercise price for this option will be reimbursement of one-third of USA's cost to date of exercise, including attributable overhead that USA's subsidiaries incur, plus interest at USA's cost of funds not to exceed the prime rate plus 1%. To the extent that USA's costs are cash-based, that portion of the exercise price will be paid in cash, and to the extent that USA's costs are media contributions, that portion of the exercise price will be paid by Expedia by reducing the equivalent dollar amount of media to be provided by USA to USA Media, LLC, which we describe in further detail below.

USA MEDIA, LLC. USA Media is a direct and indirect wholly owned subsidiary of USA that has as its only asset the right to receive, at no cost to USA Media, $15 million in advertising, marketing and promotion, which we refer to in this document as "MEDIA VALUE," at fair market value rates then in effect, for each of the five consecutive years commencing no later than July 15, 2002. The terms of USA Media's right to media value are attached as exhibit to the registration statements of USA and Expedia of which this joint prospectus/proxy statement is a part.

USA will deliver the media value in the United States or internationally through, at the sole discretion of USA Media, a combination of various media outlets owned by USA or its controlled subsidiaries. These media outlets include USA's basic cable networks, USA's syndicated television shows, USA and its subsidiaries' websites and/or other media properties of USA and its affiliates that are made available to comparable purchasers of media value from USA and its subsidiaries. For purposes of negotiation, placement and scheduling of advertising, USA Media will be treated equivalently to cash-paying comparable purchasers of advertising. The right to media value owned by USA Media does not accrue from year to year, cannot be accelerated from a future year and is forfeited to the extent that USA Media does not use it in any given year. USA Media's right to media value can only be used to promote the business of USA Media and its affiliates and, subject to limited exceptions, their respective partners, business affiliates and suppliers.

RECAPITALIZATION

GENERAL. Following the contribution described above and immediately prior to the merger with Expedia, Expedia will:

- amend and restate its articles of incorporation in the form attached as Annex B to this document to, among other things, create a new class of common stock, Expedia Class B common stock, which is entitled to 15 votes per share. We describe the other changes to

Expedia's articles of incorporation in further detail under "Proposal

No. 2--Amendment and Restatement of Expedia's Articles of Incorporation;" and

- issue up to 37,500,000 shares of Expedia Class B common stock to Expedia shareholders who elect to exchange, on a share-for-share basis, their shares of Expedia common stock for shares of Expedia Class B common stock, subject to proportional allocation in the event of oversubscription. Shares of Expedia Class B common stock will automatically be converted in the merger into the right to receive the package of USA securities.

ELECTION PROCEDURES. Accompanying this joint prospectus/proxy statement is an election form and letter of transmittal, which includes instructions on how to elect to exchange all or a portion of your shares of Expedia common stock for shares of Expedia Class B common stock in the recapitalization. All elections must be validly made on the election form and letter of transmittal. Shareholders and warrant holders may submit multiple election forms and letters of transmittal.

Any election form and letter of transmittal submitted by a dissenting shareholder will be invalid and will be rejected. Expedia shareholders who exercise dissenters' rights will be treated as non-electing shareholders. If any dissenting shareholder ceases to be a dissenting shareholder but does not submit a valid election form and letter of transmittal prior to the election deadline, then each share of Expedia common stock held by that dissenting shareholder will remain outstanding without any interest or other value due other than the right to receive new Expedia warrants in the merger.

If you hold Expedia common stock in "street name" through a broker or other nominee, your broker or other nominee must make an election on your behalf. You will receive separate instructions from your broker or other nominee instructing you on how to instruct your broker or other nominee to fill out the election form and letter of transmittal. You will need to provide these instructions to your broker sufficiently in advance of the deadline for making an election in the recapitalization to permit your broker to deliver the election form and letter of transmittal together with your Expedia stock certificates prior to the deadline.

You may change or revoke your election by submitting a properly completed and signed election form and letter of transmittal (together with Expedia common stock certificates, as required) to the exchange agent prior to the election deadline. You may revoke your election and withdraw the stock certificates representing your Expedia common stock by providing written notice to the exchange agent by 5:00 p.m., eastern time, on the day prior to the election deadline. If your shares are held in "street name," you must follow the directions provided by your broker to change your election.

IF YOU HOLD EXPEDIA SHARES: For an election to receive Expedia Class B common stock in exchange for your shares of Expedia common stock in the recapitalization to be validly made, the exchange agent must have received a valid, properly completed and executed form of election by the election deadline. An election will be validly made only if the form of election is properly completed and executed by the shareholder in accordance with the instructions contained in that form (with the signature or signatures guaranteed to the extent required by the form of election) and is accompanied by the stock certificate or certificates representing the Expedia common stock owned by that shareholder for which the shareholder is electing to receive shares of Expedia Class B common stock, duly endorsed in blank or in another form acceptable to USA. If stock certificates are not available when the form of election is sent to the exchange agent, the shareholder may provide a Guarantee of Delivery from a member of a national securities exchange, a member of the National Association of Securities Dealers, Inc. or a commercial bank or trust company located in the United States. A Guarantee of Delivery in effect guarantees to USA that those stock certificates will be delivered to the exchange agent at a later date.

IF YOU HOLD OUTSTANDING EXPEDIA WARRANTS: If you hold outstanding Expedia warrants, you have the right to elect to exchange some or all of your warrants for Expedia Class B common stock in the

recapitalization. In order for your election to be effective, you must exercise your warrants prior to the recapitalization. In addition, you must complete and submit the enclosed election form and letter of transmittal, together with a copy of your warrant, payment of your exercise price and an executed notice to exercise your warrant to the exchange agent by the election deadline of 5:00 p.m., eastern time, on , 2001, the date of the annual meeting.

IF YOU HOLD EXPEDIA OPTIONS: THE FOLLOWING ONLY APPLIES TO EXPEDIA STOCK OPTIONS THAT WERE GRANTED ON OR PRIOR TO AUGUST 2, 2001. IF YOU WERE GRANTED OPTIONS AFTER THIS DATE, YOUR OPTIONS WILL REMAIN UNCHANGED AND YOU WILL BE ISSUED ONLY EXPEDIA COMMON STOCK UPON EXERCISE.

If your options are vested and you exercise prior to the date on which new Expedia warrants will be distributed to Expedia optionholders, which date will be approximately 10 days prior to the date of the annual meeting (which we refer to in this document as the "DISTRIBUTION DATE"), you have the right to elect to exchange some or all the Expedia shares issued upon exercise for Expedia Class B common stock in the recapitalization by following the election procedure for shareholders described in this document. If you elect not to exchange your shares in the recapitalization, you will retain your shares of Expedia common stock and if you continue to hold these shares as of the effective time, you will receive in the merger 0.1920 Expedia warrants for each share.

If you continue to hold Expedia stock options, vested or unvested, on the distribution date, Expedia will distribute to you 0.1920 Expedia warrants for each option you hold on the distribution date, provided that you agree not to exercise or transfer your underlying options until the earlier of the completion of the transactions and the termination of the merger agreement. The Expedia warrants to be distributed to optionholders on the distribution date have terms identical to the terms of the Expedia warrants being distributed in the merger to holders of Expedia common stock, except that the warrants being distributed to Expedia optionholders are subject to the same vesting schedule as the options in respect of which the warrants are being issued and will be non-transferable and non-exercisable for a period of 90 days following the date of their issue.

THE ELECTION DEADLINE IS 5:00 P.M., EASTERN TIME, ON , 2001, THE DATE OF THE ANNUAL MEETING.

USA has the right to make reasonable determinations and to establish reasonable procedures in guiding the exchange agent in its determination as to the validity of forms of election. None of Expedia, USA or the exchange agent is under any obligation to notify any Expedia shareholder of any defect in a form of election. If you have questions related to the form of election and letter of transmittal, or if you require additional copies of the form of election and letter of transmittal, please contact the proxy solicitor, MacKenzie Partners, Inc., at (800) 322-2885.

THE FORM OF ELECTION AND LETTER OF TRANSMITTAL IS INCLUDED WITH THIS JOINT PROSPECTUS/PROXY STATEMENT. YOU SHOULD COMPLETE IT IN ACCORDANCE WITH ITS INSTRUCTIONS AND RETURN IT TO THE EXCHANGE AGENT PRIOR TO THE ELECTION DEADLINE. IN ORDER FOR AN ELECTION AND/OR OTHER DOCUMENTATION FORM AND LETTER OF TRANSMITTAL TO BE EFFECTIVE, YOU MUST ALSO INCLUDE YOUR STOCK CERTIFICATES AS SET FORTH IN THE FORM OF ELECTION. IF YOU DO NOT PROPERLY COMPLETE AND RETURN TO THE EXCHANGE AGENT A FORM OF ELECTION PRIOR TO THE ELECTION DEADLINE, YOUR

SHARES OF EXPEDIA COMMON STOCK WILL BE TREATED AS THOUGH NO ELECTION TO RECEIVE EXPEDIA CLASS B COMMON STOCK IN RESPECT TO THOSE SHARES HAD BEEN MADE AND AS A RESULT THOSE SHARES WILL REMAIN OUTSTANDING FOLLOWING THE MERGER.

If you did not receive a copy of the election form and letter of transmittal because you acquired Expedia shares after the record date, you should call the proxy solicitor, MacKenzie Partners, Inc., at (800) 322-2885 and a copy of each will be mailed to you free of charge.

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MERGER

Following the recapitalization of Expedia, Taipei will merge with and into Expedia, with Expedia surviving as a public company controlled by USA. In the merger:

- Each share of Expedia common stock that is owned by Expedia as treasury stock, if any, and all shares of Expedia common stock that are owned by USA and any of its wholly owned subsidiaries immediately prior to the effective time of the merger will be cancelled and no consideration will be delivered for the cancellation.

- Each share of Expedia common stock, other than shares held by dissenting shareholders and shares cancelled as specified above, issued and outstanding immediately prior to the effective time of the merger will remain outstanding and will entitle its holder to receive 0.1920 of a new Expedia warrant having the terms described under "Description of Expedia Capital Stock--New Expedia Warrants."

- Each share of Expedia Class B common stock issued and outstanding immediately prior to the effective time of the merger shall be converted into the right to receive a combination of:

  (a) a number of shares of USA common stock equal to the quotient, rounded to the nearest ten thousandth (or if there is no nearest ten thousandth, the next higher thousandth) obtained by dividing (1)(A) $35.00 less (B) the product of the number of shares of USA preferred stock received in respect to each share of Expedia Class B common stock calculated in accordance with (b) below and 50, by (2) the average of the daily closing prices (as of 4:00 p.m., eastern time) per share of USA common stock, as reported on Nasdaq for the ten consecutive trading days immediately preceding the second trading day prior to the date of the election deadline; PROVIDED that for purposes of this calculation, the average closing price of USA common stock calculated above shall not be greater than $31.00 or less than $23.00;

  (b) a number of shares of USA preferred stock equal to the quotient, rounded to the nearest ten thousandth (or if there is no nearest ten thousandth, the next higher thousandth) obtained by dividing 13,125,000 by the number of shares of Expedia Class B common stock exchanged in the merger; and

  (c) a number of warrants to purchase USA common stock equal to the exchange rate corresponding to the USA share price set forth on Annex F to this document.

In the event that the parties to the merger agreement reasonably determine that the requirements of Section 368(a)(2)(E)(ii) of the Internal Revenue Code would not be satisfied, then the exchange ratio relating to the USA warrants determined in accordance with (c) above will be reduced and the number of shares of USA common stock to be received in the merger will be adjusted in accordance with the formula set forth in the merger agreement. Because the replacement of warrants with common stock will be pursuant to a valuation mechanism that includes certain fixed variables, it is possible that the value of the USA common stock received under this adjustment will be greater than or less than the value of the warrants being replaced.

- The outstanding shares of Taipei, which are all held by USA, will be converted into the right to receive an aggregate number of shares of Expedia Class B common stock equal to the number of shares of Expedia Class B common stock issued in the recapitalization. After the merger, no Expedia shareholder other than USA will hold Expedia Class B common stock.

- No fractional shares will be issued in the merger, and cash equal to the value of any fraction of a share or warrant will be paid in its place.

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The merger will become effective when the articles of merger are filed with the Secretary of State of the State of Washington or at such other time may be specified in the articles of merger. We expect the merger to occur in the fourth quarter of 2001. Because the merger is subject to governmental approvals, however, we cannot predict the exact timing.

BACKGROUND

Expedia became a public company in November 1999 when Microsoft, Expedia's sole shareholder at that time, sold approximately 20% of its interest in Expedia in an initial public offering of the company's common stock. Microsoft's interest has since been diluted as a result of option exercises, subsequent share offerings and shares issued in connection with acquisitions. Since July 2000, Expedia and Microsoft had discussed the possibility of Microsoft further reducing its holdings in Expedia.

From time to time beginning in February 2001, management of USA and Expedia spoke informally regarding their companies and discussed, at a general level, whether there was any interest in a possible strategic transaction involving Expedia and USA. On April 27, 2001, members of Expedia's senior management met in Los Angeles, California with members of USA's senior management to generally explore potential merits of a strategic combination involving the two companies. Expedia and USA also executed a confidentiality agreement.

Following the meeting in Los Angeles, senior management of Expedia and USA had a series of telephone conversations to discuss issues related to how a possible transaction might be structured. Expedia management also contacted Microsoft and Expedia's board of directors, as well as Expedia's financial and legal advisors, to inform them of the preliminary discussions that USA and Expedia were having. From May 4, 2001 to June 6, 2001, Expedia's management had discussions with its advisors and with Microsoft to review possible transaction structures.

In early June 2001, Expedia's Chairman of the Board and its management had further talks with USA's management regarding a potential transaction and possible transaction structures. These discussions focused on general structural issues, including whether a tax-free transaction could be achieved, as well as the merits of a business combination. Some of these discussions included Microsoft and its advisors.

In mid-June 2001, the parties commenced due diligence. Expedia management also updated its board of directors on developments in the discussions.

The parties continued to hold discussions regarding the terms and structure of a proposed transaction periodically throughout the rest of June 2001 and in early July 2001. During that period, on July 6, 2001, Expedia management distributed an update to members of the board of directors of Expedia outlining the points of discussion and noting the outstanding issues that management was discussing with USA and Microsoft. Later that day, USA's outside legal counsel delivered an initial draft of the merger agreement.

On July 11, 2001, the Expedia board of directors met to consider the terms of the proposed transaction with USA. Expedia's management reported on the negotiations with USA and Microsoft, as well as the nature of Expedia's operations as a majority-owned subsidiary of USA. The board of directors then listened to presentations from Expedia's outside legal counsel and financial advisor regarding the financial and legal elements of the transaction. During this meeting, the board of directors directed management to seek from USA additional terms and protections before it would approve the proposed transaction. Following the board of directors meeting, Expedia's management conveyed this message to USA. In response, USA made a counteroffer that evening that aimed to address the concerns of Expedia's board of directors.

On July 13, 2001, USA's board of directors held a special meeting to consider the proposed transactions. At the meeting, USA's senior management and financial and legal advisors presented to the board of directors the background of the proposed transactions, the outline of the terms and conditions of the proposed transaction, a strategic and financial analysis of the proposed transactions and a summary of the legal issues relating to the proposed transactions. Following discussion by the board of directors, USA's board of directors unanimously approved the proposed transactions, including the proposed merger agreement and related agreements, subject to finalization by USA's management and its legal advisors of the necessary documentation.

On July 15, 2001, Expedia's board of directors, other than one director, who was excused, considered USA's most recent proposal and all other elements of the transaction as it had developed since their last meeting. Expedia's financial advisor reviewed with the board of directors the financial terms of the transaction and rendered to the Expedia board of directors its oral opinion, subsequently confirmed in writing, that as of that date, the consideration to be received by holders of shares of Expedia common stock (other than Microsoft) pursuant to the terms of the merger agreement was fair from a financial point of view to such holders. Expedia's outside legal counsel then reviewed with the board of directors the legal elements of the transaction and again reviewed the board of directors' fiduciary duties in the context of the transaction. The directors present then unanimously resolved to approve the transaction and recommend it to Expedia shareholders.

From July 6 to July 15, 2001, the parties negotiated and finalized the terms of the transaction agreements, including the merger agreement. Upon completion of these negotiations, the parties executed the merger agreement and certain ancillary documents, copies of which have been filed as exhibits to this joint prospectus/proxy statement, and USA and Expedia issued a joint press release announcing the execution of the merger agreement on July 16, 2001.

RECOMMENDATIONS OF THE EXPEDIA BOARD OF DIRECTORS

At a meeting held on July 15, 2001, the board of directors of Expedia, with one director excused, unanimously:

- determined that the transactions are consistent with, and in furtherance of, the long-term business strategy of Expedia and are fair to, and in the best interests of, Expedia and its shareholders;

- directed that each of the proposals relating to the transactions be submitted for consideration by the Expedia shareholders; and

- recommended that the Expedia shareholders vote FOR approval and adoption of each of the proposals relating to the transactions.

However, for the reasons described below, the Expedia board of directors has not taken a position as to whether Expedia shareholders should elect to exchange their shares of Expedia common stock for shares of Expedia Class B common stock in the recapitalization, and as a result receive USA securities in the merger, or remain shareholders of Expedia and, in addition, receive new Expedia warrants in the merger.

INFORMATION AND FACTORS CONSIDERED BY THE EXPEDIA BOARD OF DIRECTORS

RECOMMENDATION OF THE PROPOSALS

In reaching its decision to recommend to shareholders the adoption and approval of each of the proposals relating to the transactions, the Expedia board of directors consulted with Expedia's

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management, as well as its legal counsel and its financial advisor, and carefully considered the following material factors:

(1) the financial terms and structure of the transactions, which permit each holder of Expedia common stock to choose among:

- remaining as a shareholder of Expedia and continuing to participate in the growth of Expedia's business while at the same time receiving additional equity in Expedia in the form of new Expedia warrants;

- becoming a stockholder of USA, a more diversified company in the media industry with a larger public float, by receiving the package of USA securities, which includes USA common stock, a security with a higher trading volume and greater liquidity than Expedia common stock, but which also includes new issues of preferred stock and warrants, which may have significantly less trading volume and liquidity than Expedia common stock; and

- allocating Expedia shares in the recapitalization to be able to take advantage of both of the above options;

(2) the presentation of Morgan Stanley and the opinion of Morgan Stanley, which opinion was subsequently confirmed in writing, to the effect that, as of July 15, 2001, and subject to the qualifications and limitations set forth in the written opinion, the consideration to be received by the holders of shares of Expedia common stock (other than Microsoft) pursuant to the merger agreement was fair from a financial point of view to such holders. A copy of Morgan Stanley's written opinion is attached as Annex D to this joint prospectus/proxy statement;

(3) the board of directors' knowledge of Expedia and the industry in which it competes and its belief that USA's contributions to Expedia in the transactions of media advertising and promotion time, the option to purchase National Leisure Group and the option to purchase a one-third interest in USA's proposed travel channel are beneficial to the long-term prospects of Expedia and its ability to develop new lines of business;

(4) USA's historical financial and operating condition, the trading history of the USA common stock and the performance of certain USA-controlled

public subsidiaries, of which Expedia would become one as a result of the transactions, as well as the strong business and investment community reputation of Barry Diller, the chairman and chief executive officer of USA;

(5) the fact that Expedia would join the USA umbrella of entertainment, television, interactive media, travel and other businesses, enabling Expedia to potentially realize greater strategic business relationships with, and benefit from the resources of, the USA group of companies;

(6) the fact that USA agreed in the merger agreement to certain protections regarding the independence of Expedia with respect to certain important decisions of Expedia. These provisions include USA's agreement that: (a) Expedia or its subsidiaries will not be restricted from engaging in or owning an interest in any business which competes with USA or its affiliates; (b) for so long as USA owns 50.1% of the aggregate voting power of Expedia, Expedia will not enter into any material contract, arrangement or transaction with USA or its affiliates without the prior approval of a majority of Expedia's independent directors; (c) there will be meaningful consultation between USA and Expedia's chief executive officer in the selection of Expedia's independent directors; and (d) Expedia's independent directors will have the right, on behalf of Expedia, to enforce the above provisions and any waiver or amendment of the above provisions requires the approval of the majority of Expedia's independent directors;

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(7) the fact that Microsoft had indicated to the Expedia board of directors its desire to transfer its controlling interest in Expedia for strategic purposes and to achieve greater liquidity in its investment and the fact that Microsoft could pursue a divestiture with or without the support of the Expedia board of directors and the Expedia board of directors' belief that the transactions would permit Microsoft to divest its controlling interest with minimal impact on Expedia's public shareholders and in a manner that the Expedia board of directors believes maximizes Expedia's prospects for long-term growth while at the same time affording shareholders choices and benefits which may not have been available in alternative divestiture strategies that Microsoft could have elected to pursue;

(8) the terms of the voting and election agreement between Microsoft and USA and the fact that Microsoft has irrevocably committed to approve the transactions and each of the proposals, coupled with Microsoft's controlling ownership interest which assures the approval of the transactions and each of the proposals;

(9) consistent with the terms of the tag-along rights set forth in the shareholder agreement, dated October 1, 1999, between Expedia and Microsoft, the fact that the public shareholders of Expedia have the choice to receive the same consideration to be received by Microsoft in the transactions. See "Proposal No. 3--Termination of the Shareholder Agreement" for a more detailed description of these tag-along rights;

(10) Expedia's continued existence as a public company, which will permit it to continue granting Expedia stock options to its employees thereby enabling Expedia to continue to attract and retain qualified employees and enabling these employees to continue participating in the earnings and growth of Expedia's business;

(11) the fact that although the voting power of Expedia's public shareholders will be diluted pursuant to the transactions, the Expedia

public shareholders never exercised voting control due to Microsoft's majority ownership position;

(12) the possibility that an active public trading market for the USA warrants, the USA preferred stock and the new Expedia warrants may not develop or be sustained following the transactions and that the prices for such securities in any such market may trade at a discount from the initial or anticipated valuations for such securities;

(13) the ability to complete the merger as a reorganization for United States federal income tax purposes in which Expedia shareholders generally will not recognize any gain or loss, except for any gain or loss recognized in connection with cash received for fractional shares of USA common stock, USA preferred stock, USA warrants or new Expedia warrants;

(14) the board of directors' belief, after considering the advice of counsel, that the parties should be able to satisfy all conditions to the completion of the transactions, including the receipt of the necessary regulatory approvals in accordance with the terms of the merger agreement, while recognizing the possibility that regulators might not grant approval or may impose conditions on the grant of their approval;

(15) the terms of the merger agreement regarding third party proposals, considered together with the terms and provisions of the voting and election agreement, including provisions in the merger agreement that provide (a) that the Expedia board of directors may not solicit, furnish information to a party making, or enter into discussions regarding, a third party proposal without the prior consent of USA, (b) that the Expedia board of directors must use its reasonable best efforts to obtain from the Expedia shareholders a vote in favor of the transactions and each of the proposals relating to the transactions and must recommend to the Expedia shareholders that they so vote, (c) that the Expedia board of directors shall not be required to continue to recommend the transactions and the proposals relating to the transactions only in specific limited circumstances and (d) that Expedia cannot terminate the

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merger agreement in order to enter into a transaction with a third party, and the potential effect of such provisions on possible efforts by other parties to acquire or otherwise combine with Expedia. In evaluating these terms of the merger agreement, the Expedia board of directors also considered the terms of the voting and election agreement described in paragraph (8) above and USA's position that it was not prepared to consider a transaction that did not include the terms in paragraph (8) and in this paragraph (15); and

(16) the interests that certain executive officers and directors of Expedia have with respect to the transactions in addition to their interests as shareholders of Expedia generally. See "--Other Interests of Expedia Officers and Directors in the Transactions."

The Expedia board of directors did not find it necessary to, and did not quantify or otherwise assign relative weights to, the foregoing factors or determine that any factor was of particular importance. Rather, the Expedia board of directors views its recommendation as being based on the totality of the information presented to, and considered by, it. The Expedia board of directors considered all these factors and determined that these factors, as a whole, supported the conclusions and recommendations described above. In reaching this determination, the factors described above generally figured positively, as advantages or opportunities, with the exception of the factors described in clauses (8) and (15) above, which figured both positively and negatively, and factors described in clauses (11), (12) and (16) above, which the Expedia board of directors considered to be neutral.

In considering the recommendation of the Expedia board of directors to approve and adopt the transactions and each of the proposals relating to the transactions, you should be aware that certain officers and directors of Expedia have interests in the proposed transactions that are different from and in addition to the interests of Expedia shareholders generally. The Expedia board of directors was aware of these interests and considered them in approving the proposals. See "--Other Interests of Expedia Officers and Directors in the Transactions."

NO RECOMMENDATION ON THE ELECTION

For the reasons described below, the Expedia board of directors has not taken a position as to whether Expedia shareholders should elect to exchange their shares of Expedia common stock for shares of Expedia Class B common stock in the recapitalization, and as a result receive USA securities in the merger, or retain their Expedia common shares and therefore remain as shareholders of Expedia and also receive new Expedia warrants in the merger:

(1) the transactions were specifically structured to provide Expedia shareholders with a choice as to whether to remain shareholders of Expedia, become shareholders of USA or split their current investment in some proportion between Expedia securities and USA securities;

(2) the relative values of (x) the package of USA securities to be received in the merger in exchange for a share of Expedia Class B common stock and (y) a share of Expedia common stock, together with 0.1920 of a new Expedia warrant to be issued to each Expedia shareholder who does not elect to exchange his shares, will vary from time to time based, in part, on the trading values of USA common stock and Expedia common stock. As a result, the relative values of the USA securities and the Expedia securities at the time that the Expedia board of directors approved the transactions will likely differ from the relative values on the date of the mailing of this joint prospectus/proxy statement, the election deadline and the date we complete the transactions. Accordingly, any recommendation by the Expedia board of directors with respect to the election at the time it approved the transactions would have been based on information which could quickly become dated and could be confusing or misleading to Expedia shareholders; and

(3) Expedia shareholders are best suited to determine whether continuing as Expedia shareholders under USA's control or making an investment in USA is the appropriate course of action,

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after taking into account, among other things, their views of the two companies and the financial and operating condition and growth prospects of the two companies, as well as their individual investment portfolios.

You should consult your financial advisor in connection with making the decision to determine the most appropriate election for you with respect to the recapitalization.

MICROSOFT'S ELECTION NOT A RECOMMENDATION

The terms of the USA securities reflect in part negotiations between Microsoft and USA to provide Microsoft with securities that would be more liquid than its controlling interest in Expedia. Microsoft has agreed to make an election to convert all of its interest into Expedia Class B common stock in the recapitalization and receive the package of USA securities in the merger, subject to proration. Because of its controlling interest in Expedia, the relatively large number of Expedia shares owned by Microsoft and the relatively small public market for Expedia common stock, Microsoft is subject to both regulatory and economic restrictions on its disposition of Expedia common stock that do not apply to other shareholders of Expedia. Microsoft's election should not be viewed as a recommendation of the suitability of the USA securities for any other person or as a recommendation concerning the investment merits of the USA securities in comparison to Expedia securities. Microsoft specifically disclaims any such recommendations.

OPINION OF EXPEDIA'S FINANCIAL ADVISOR

Under an engagement letter dated June 20, 2001, Expedia retained Morgan Stanley to provide it with financial advisory services and a financial fairness opinion in connection with the transactions. Expedia's board of directors selected Morgan Stanley to act as its financial advisor based on Morgan Stanley's qualifications, expertise and reputation and its knowledge of the business and affairs of Expedia. At the meeting of the Expedia board of directors on July 15, 2001, Morgan Stanley rendered its oral opinion, subsequently confirmed in writing, that as of July 15, 2001, based upon and subject to the assumptions and considerations set forth in its opinion, the consideration to be received by the holders of shares of Expedia common stock (other than Microsoft) pursuant to the terms of the merger agreement was fair from a financial point of view to such holders.

THE FULL TEXT OF MORGAN STANLEY'S OPINION, DATED AS OF JULY 15, 2001, IS ATTACHED AS ANNEX D HERETO. THE OPINION SETS FORTH, AMONG OTHER THINGS, THE ASSUMPTIONS MADE, PROCEDURES FOLLOWED, MATTERS CONSIDERED AND LIMITATIONS ON THE SCOPE OF THE REVIEW UNDERTAKEN BY MORGAN STANLEY IN RENDERING ITS OPINION. WE URGE YOU TO READ THE ENTIRE OPINION CAREFULLY. MORGAN STANLEY'S OPINION IS DIRECTED TO EXPEDIA'S BOARD OF DIRECTORS AND ADDRESSES ONLY THE FAIRNESS FROM A FINANCIAL POINT OF VIEW OF THE CONSIDERATION TO BE RECEIVED BY THE HOLDERS OF SHARES OF EXPEDIA COMMON STOCK (OTHER THAN MICROSOFT) PURSUANT TO THE TERMS OF THE MERGER AGREEMENT AS OF THE DATE OF THE OPINION. THE OPINION DOES NOT ADDRESS ANY OTHER ASPECTS OF THE TRANSACTIONS AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY HOLDER OF EXPEDIA COMMON STOCK AS TO HOW TO VOTE AT THE EXPEDIA ANNUAL MEETING OR WHETHER OR NOT TO ELECT TO RECEIVE SHARES OF EXPEDIA CLASS B COMMON STOCK IN THE RECAPITALIZATION. THE SUMMARY OF THE OPINION OF MORGAN STANLEY SET FORTH IN THIS DOCUMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE OPINION.

In connection with rendering its opinion, Morgan Stanley, among other things:

- reviewed certain publicly available financial statements and other information of Expedia and USA;

- reviewed certain internal financial statements and other financial and operating data concerning Expedia prepared by the management of Expedia;

- reviewed certain financial projections prepared by the management of Expedia;

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- discussed the past and current operations and financial condition and the prospects of Expedia and USA with senior executives of Expedia and USA, respectively;

- reviewed the reported prices and trading activity for the Expedia common stock and the USA common stock;

- compared the financial performance of Expedia and USA and the prices and trading activity of the Expedia common stock and the USA common stock with that of certain other comparable publicly traded companies and their securities;

- participated in discussions and negotiations among representatives of Expedia and USA and their financial and legal advisors;

- reviewed the draft merger agreement dated July 15, 2001 and certain related documents;

- reviewed the terms of the new Expedia warrants, USA preferred stock and USA warrants with the management of Expedia and the terms of other comparable securities;

- reviewed the terms of the recapitalization, including governance and voting rights associated with the recapitalization; and

- considered such other factors and performed such other analyses as Morgan Stanley deemed appropriate.

Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by it for the purposes of its opinion. With respect to the financial projections, Morgan Stanley assumed that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of Expedia. Morgan Stanley was not provided with financial projections for USA and instead relied upon publicly available projections of securities research analysts for USA. In addition, Morgan Stanley assumed that the transactions contemplated by the merger agreement will be consummated in accordance with the terms set forth in the merger agreement, including, among other things, that the merger will be treated as a tax-free reorganization and/or exchange, each pursuant to the Internal Revenue Code. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of Expedia or USA, nor was Morgan Stanley furnished with any such appraisals. Morgan Stanley's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, July 15, 2001.

In arriving at its opinion, Morgan Stanley was not authorized to solicit, and did not solicit, interest from any party with respect to the acquisition of Expedia or any of its assets.

Morgan Stanley noted that under the terms of the merger agreement, holders of shares of the Expedia common stock (other than Microsoft) are not required to, but are entitled to, elect to exchange their shares of Expedia common stock for shares of Expedia Class B common stock. Morgan Stanley also noted that shareholders whose shares are not exchanged in the recapitalization will continue to hold their shares of Expedia common stock and would receive, in addition, new Expedia warrants. In connection with this election, Morgan Stanley performed various analyses of Expedia, USA, the merger consideration to be exchanged for the Expedia Class B common stock and the new Expedia warrants to be issued to the holders of Expedia common stock who retain their shares in the merger.

The following is a brief summary of the material financial analyses performed by Morgan Stanley in connection with its oral opinion and in the preparation of its written opinion. Some of these summaries of financial analyses include information presented in tabular format. In order to fully understand the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

EXPEDIA

TRADING RANGE. Morgan Stanley reviewed the range of closing prices of the Expedia common stock for various periods ending on July 13, 2001, the last trading day prior to the announcement of the transactions. Morgan Stanley observed the following:

PERIOD ENDING JULY 13, 2001	RANGE OF CLOSING PRICES
Since January 2, 2001	$ 9.25 - $48.70
60 Days	$ 20.91 - $48.70
30 Days	$ 29.73 - $48.70

Morgan Stanley also reviewed the stock price performance of Expedia common stock during the period of January 2, 2001 to July 13, 2001 and compared that performance with the performance of the following companies during that period.

COMPANY	STOCK PRICE PERFORMANCE SINCE JANUARY 2, 2001
Expedia	+423%
Priceline	+519%
Travelocity	+172%
Hotel Reservations Network	+80%
Nasdaq Index	-9%

COMPARABLE COMPANY ANALYSIS. Morgan Stanley compared publicly available financial information of Expedia with publicly available information for selected companies comparable to the business of Expedia. For this analysis, Morgan Stanley examined estimates from securities research analysts and, where appropriate, made adjustments for comparability purposes. The following table presents, as of July 13, 2001, the following statistics:

- the ratio of aggregate value, defined as market capitalization plus total debt less cash and cash equivalents to calendar year 2001 gross bookings;

- the ratio of aggregate value to calendar year 2001 revenue;

- the ratio of aggregate value to calendar year 2001 gross profit; and

- the ratio of price to calendar year 2002 estimated earnings per share, commonly known as EPS.

	AGGREGATE VALUE TO			
COMPANY	CY2001 GROSS BOOKINGS	CY2001 REVENUE	CY2001 GROSS PROFIT	CY2002 P/E

Expedia	1.0x	5.7x	18.4x	69.0x
Priceline	1.6x	1.6x	10.0x	87.0x
Travelocity	0.4x	5.9x	9.7x	53.5x
Hotel Reservations Network	5.6x	5.6x	22.9x	44.4x
High	5.6x	5.9x	22.9x	87.0x
Median	1.3x	5.7x	14.2x	61.3x
Low	0.4x	1.6x	9.7x	44.4x

Morgan Stanley noted that the ratio of Expedia's aggregate value to calendar year 2001 gross bookings, revenue and gross profit and the ratio of the price of Expedia common stock to calendar year 2002 estimated earnings per share was, in each case, within the range of comparable ratios of the comparable companies.

No other company utilized in the comparable company analysis is identical to Expedia. In evaluating the comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Expedia, such as the impact of competition on the businesses of Expedia and the industry in general, industry growth and the absence of any material adverse change in the financial condition and prospects of Expedia or the industry or in the financial markets in general. Mathematical analysis, such as determining the average or median, is not in itself a meaningful method of using comparable company data.

SUM-OF-THE-PARTS ANALYSIS. Morgan Stanley performed a hypothetical "sum-of-the-parts" analysis of Expedia's merchant, agency and other business segments on a stand-alone basis using securities research analyst projections that were publicly available as of July 15, 2001. Based on a range of multiples of estimated calendar year 2001 gross bookings, revenue and gross profit for Expedia's merchant and agency and other business segments, which multiples were derived from the analysis of comparable companies, Morgan Stanley calculated the implied value per share of the Expedia common stock.

	EXPEDIA FINANCIAL STATISTICS				
CALENDAR YEAR FINANCIAL STATISTICS	MERCHANT BUSINESS (IN MILLIONS)	AGENCY & OTHER BUSINESS (IN MILLIONS)	MULTIPLE FOR MERCHANT BUSINESS	MULTIPLE FOR AGENCY & OTHER BUSINESS	IMPLIED VALUE PER SHARE OF EXPEDIA COMMON STOCK
2001 Gross Bookings	$351	$2,610	5.6x	0.4x	$51.74
2001 Revenue	$335	$ 174	5.6x	5.9x	$48.45
2001 Gross Profit	$ 55	$ 105	22.9x	9.7x	$38.20

MERGER CONSIDERATION--USA COMMON STOCK

TRADING RANGE. Morgan Stanley reviewed the range of closing prices of the USA common stock for various periods ending on July 13, 2001, the last trading day prior to the announcement of the transactions. Morgan Stanley observed the following:

PERIOD ENDING JULY 13, 2001	RANGE OF CLOSING PRICES
Since January 2, 2001	$ 18.00 - $28.00
60 Days	$ 22.55 - $28.00
30 Days	$ 24.59 - $28.00

Morgan Stanley noted that the range of market prices of the USA common stock for the 30-day period ending July 13, 2001 was within the range of prices of the USA common stock implied by the USA common exchange ratio described in the merger agreement.

COMPARABLE COMPANY ANALYSIS. Morgan Stanley compared publicly available financial information of USA with publicly available information for selected companies with businesses comparable to the business of USA. For this analysis, Morgan Stanley examined estimates from securities research analysts, where appropriate. The following table presents, as of July 13, 2001, the following statistics:

- the ratio of aggregate value, defined as market capitalization plus total debt and minority interest less cash and cash equivalents to calendar year 2001 earnings before interest, taxes, depreciation and amortization, commonly known as EBITDA; and

- the ratio of aggregate value to calendar year 2002 EBITDA.

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	AGGREGATE VALUE TO	
COMPANY	CY2001 EBITDA	CY2002 EBITDA
USA	19.8x	14.9x
Rainbow	46.2x	30.2x
AOL Time Warner	23.4x	18.7x
FOX	20.4x	16.1x
Viacom	16.8x	15.0x
Disney	12.7x	11.7x
High	46.2x	30.2x
Median	20.1x	15.6x
Low	12.7x	11.7x

Morgan Stanley noted that the ratio of USA's aggregate value to calendar year 2001 and 2002 EBITDA was, in each case, within the range of comparable ratios of the comparable companies.

No other company utilized in the comparable company analysis is identical to USA. In evaluating the comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of USA, such as the impact of competition on the businesses of USA and the industry in general, industry growth and the absence of any material adverse change in the financial condition and prospects of USA or the industry or in the financial markets in general. Mathematical analysis, such as determining the average or median, is not in itself a meaningful method of using comparable company data.

MERGER CONSIDERATION--TOTAL CONSIDERATION

In addition to analyzing the USA common stock, Morgan Stanley also reviewed the terms of the USA preferred stock and the USA warrants to be exchanged for Expedia Class B common stock in the merger. Morgan Stanley also reviewed the terms of the new Expedia warrants to be issued to holders of the Expedia common stock in connection with the merger. Morgan Stanley analyzed the theoretical values implied by the Black-Scholes model using a range of volatility, risk-free rate and maturity assumptions for the USA preferred stock, USA warrants and new Expedia warrants to be received in the transactions. The table below summarizes the total consideration implied by the sum of the USA common stock, USA preferred stock and USA warrants to be exchanged for shares of the Expedia Class B common stock in the merger. The consideration to be exchanged for the Expedia Class B common stock is presented both on (X) a "Notional Value" basis assuming market value of $25.26 for the USA common stock as of July 13, 2001 and pursuant to the USA common exchange ratio as defined in the merger agreement and face value for the USA preferred stock and (Y) an "Estimated Value" basis assuming market value of $27.00 for the USA common stock and pursuant to the USA common exchange ratio as defined in the agreement and the Black-Scholes theoretical values for the USA preferred stock and the USA warrants assuming a range of assumptions made by Morgan Stanley. In each case, the theoretical values of the USA preferred stock, USA warrants and new Expedia warrants exclude any dilutive effects of such securities.

CONSIDERATION PER SHARE OF EXPEDIA CLASS B COMMON STOCK, EXCEPT WHERE NOTED (ASSUMING 37,500,000 SHARES OF EXPEDIA CLASS B COMMON STOCK ARE ISSUED IN THE RECAPITALIZATION)

	AGGREGATE NOTIONAL VALUE (IN MILLIONS)	NOTIONAL VALUE/SHARE	ESTIMATED VALUE/SHARE*
USA common stock	$656	$17.50	$ 17.50 - $17.
USA preferred stock	$656	$17.50	$ 18.19 - $18.
USA warrants	--	--	$ 3.07 - $ 4.
Total			$ 38.76 - $40.

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* As determined by Morgan Stanley's analysis

Shareholders of Expedia who do not receive shares of Expedia Class B common stock in the recapitalization will continue to hold their shares of Expedia common stock, which had a market value equal to $48 45/64 per share on July 13, 2001. In addition, those shareholders will receive in the merger for each share of Expedia common stock 0.1920 of a new Expedia warrant with an estimated value per share, as determined by Morgan Stanley's analysis, to be between $3.39-$4.61.

The analyses performed on the USA common stock, USA preferred stock, USA warrants and new Expedia warrants are theoretical valuations based on a range of assumptions. No specific analysis is identical to the actual prices at which the USA common stock, USA preferred stock, USA warrants and new Expedia warrants may trade. There is currently no public market for the USA preferred stock, USA warrants and the new Expedia warrants. In evaluating the theoretical valuations, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial and other matters, many of which are beyond the control of USA and Expedia, such as the impact of the competition on the business of USA and Expedia and the industry in general, industry growth and the absence of any material adverse change in the financial condition and prospects of USA and Expedia or the industry or in the financial markets in general.

In connection with the review of the transactions by Expedia's board of directors, Morgan Stanley performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor it considered. Morgan Stanley believes that selecting any portion of its analyses, without considering all analyses as a whole, would create an incomplete view of the process underlying its analyses and opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors, and may have deemed various assumptions more or less probable than other assumptions. As a result, the ranges of valuations resulting from any particular analysis described above should not be taken to be Morgan Stanley's view of the actual value of Expedia or USA. In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters. Many of these assumptions are beyond the control of Expedia or USA. Any estimates contained in Morgan Stanley's analyses are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates.

Morgan Stanley conducted the analyses described above solely as part of its analysis of the fairness of the consideration to be received by holders of Expedia common stock (other than Microsoft) pursuant to the terms of the merger agreement from a financial point of view to those holders and in connection with the delivery of its opinion dated July 15, 2001 to Expedia's board of directors. These analyses do not purport to be appraisals or to address the prices at which the USA common stock, USA preferred stock, USA warrants, Expedia common stock or new Expedia warrants may trade at any time.

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The consideration to be received by holders of Expedia common stock pursuant to the terms of the merger agreement was determined through arm's-length negotiations between Expedia, Microsoft and USA and was approved by Expedia's board of directors. Morgan Stanley provided advice to Expedia during these negotiations. Morgan Stanley did not, however, recommend any specific consideration to Expedia or its board of directors or that any specific consideration constituted the only appropriate consideration for the transactions.

In addition, Morgan Stanley's opinion and its presentation to Expedia's board of directors was one of many factors taken into consideration by Expedia's board of directors in deciding to approve the transactions. Consequently, the analyses described above should not be viewed as determinative of the opinion of Expedia's board of directors with respect to the consideration or of whether Expedia's board of directors would have been willing to agree to a different consideration.

Expedia's board of directors retained Morgan Stanley based upon Morgan Stanley's qualifications, experience and expertise. Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking and financial advisory business, is continuously engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate, estate and other purposes. In the past, Morgan Stanley and its affiliates have provided financial advisory services for Expedia and Microsoft. In the ordinary course of Morgan Stanley's trading and brokerage activities, Morgan Stanley or its affiliates may at any time hold long or short positions, may trade or otherwise effect transactions, for its own account or for the account of customers in the senior loans, equity and other securities of Expedia, USA, Microsoft or any other parties involved in the transactions.

Under the engagement letter, Morgan Stanley provided financial advisory services and a financial fairness opinion in connection with the transactions and Expedia agreed to pay Morgan Stanley for its services an agreed upon fee, a portion of which was paid at the time of execution of the merger agreement, and the remainder of which will be paid upon the completion of the transactions. Expedia has also agreed to reimburse Morgan Stanley for its expenses incurred in performing its services. In addition, Expedia has agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Morgan Stanley's engagement.

EXPEDIA AFTER THE MERGER

CAPITAL STOCK

Immediately after the transactions, Expedia capital stock will consist of

- Expedia common stock, which will be held by shareholders of Expedia who did not elect to receive Expedia Class B common stock in the recapitalization and shareholders who did so elect but were prorated;

- Expedia Class B common stock, all of which will be held by USA;

- outstanding new Expedia warrants, which in accordance with their terms do not terminate upon the effective time of the merger, to the extent that holders of these warrants have not elected to exercise them prior to the recapitalization;

- new Expedia warrants which will be issued in the merger to shareholders of Expedia who retain their Expedia common stock in the recapitalization; and

- new Expedia warrants which will be distributed as part of the transactions prior to the annual meeting to Expedia optionholders who were granted options on or prior to August 2, 2001 and who continue to hold such options on the date of the distribution.

For a more detailed description of the rights of the holders of Expedia stock, see "Description of Expedia Capital Stock."

OWNERSHIP OF EXPEDIA AFTER THE TRANSACTIONS

Immediately after giving effect to the transactions, USA will hold between 67% to 75% of the outstanding equity (depending on the number of shareholders who remain as shareholders of Expedia after the recapitalization) and in excess of 90% of the outstanding voting power of Expedia, with the former holders of Expedia owning the remaining interests in Expedia. All percentages are based on Expedia shares outstanding as of   , 2001, but after giving effect to the transactions.

MANAGEMENT AND OPERATIONS OF EXPEDIA AFTER THE TRANSACTIONS

Following the transactions, USA will control Expedia, Mr. Diller will become Chairman of the Board of Expedia and Mr. Barton will continue in his role as President and Chief Executive Officer of Expedia. At the effective time of the merger and through the one-year anniversary of such time, the board of directors of Expedia will consist of 11 members, six of whom will be appointed by USA. The remaining five members will be Expedia's Chief Executive Officer and Chief Financial Officer and three independent directors mutually agreed to by USA and Expedia. Messrs. Maffei and Hoag, both of whom currently are directors of Expedia, will constitute two of the three independent directors following the transactions. USA expects to select its designees, and USA and Expedia expect to select the remaining independent designee, shortly before the transactions are completed.

RELATIONSHIP WITH USA

Following the transactions, USA will have voting control of Expedia and will designate a majority of the Expedia directors. In addition, USA and Expedia have agreed that their relationship would be governed by the following principles, none of which can be amended or waived without the approval of a majority of Expedia's independent directors:

- USA or any of its subsidiaries, on the one hand, and Expedia or any of its subsidiaries, on the other hand, may engage in or own interests in businesses that compete with the other;

- as long as USA owns 50.1% of Expedia's total voting power, Expedia would not enter into or amend any material arrangements with USA or any of its affiliates without the approval of a majority of Expedia's independent directors; and

- there will be meaningful consultation between USA and Expedia's Chief Executive Officer in the selection of Expedia's independent directors.

OTHER INTERESTS OF EXPEDIA OFFICERS AND DIRECTORS IN THE TRANSACTIONS

In considering the recommendation of the Expedia board of directors with regard to the proposals relating to the transactions, you should be aware that, as described below, members of the management and board of directors of Expedia may have interests in the transactions that are different from, or in addition to, your interests, and that may create potential conflicts of interest. Richard N. Barton, the president and chief executive officer of Expedia, is a member of the seven-person Expedia board of directors that approved the transactions.

CONTINUING BOARD POSITIONS

As mentioned above in "Expedia after the Merger--Management and Operations of Expedia after the Transactions," through the first anniversary of the effective time of the merger, the Expedia board of directors will consist of 11 members: Mr. Barton, Mr. Stanger, six directors appointed by USA, and three additional independent directors mutually agreed to by USA and Expedia, two of which will be Messrs. Maffei and Hoag, who are currently directors of Expedia. USA generally expects to fill a majority of the Expedia director positions with designees of USA.

EMPLOYMENT AGREEMENT TERM SHEET WITH MR. BARTON

On July 15, 2001, Expedia entered into a binding term sheet with Mr. Barton, setting forth the material terms of his employment pursuant to an employment agreement that will be entered into prior to the effective time and supercede his current employment agreement. The agreement will be effective on the effective date of the merger and have a three-year term, and six months prior to the end of the term, Expedia and Mr. Barton will enter into good-faith negotiations to extend the employment term. Pursuant to the term sheet, Mr. Barton will remain as chief executive officer of Expedia and will be a member of the board of directors of Expedia. If the transactions are terminated, the term sheet will be of no further force or effect.

COMPENSATION. Mr. Barton will receive an annual base salary of $266,000 and will be eligible to receive an annual bonus of 200% of his salary, payable 50% in cash and 50% in Expedia stock options based on achieving agreed-upon Expedia budget goals. $133,000 of the cash portion of Mr. Barton's bonus is guaranteed.

Following the effective date, all of Mr. Barton's outstanding and unexercised Expedia stock options will remain outstanding in accordance with their terms. On the effective date, Mr. Barton will receive a grant of options to purchase 100,000 shares of USA's common stock at a fair market value exercise price. Mr. Barton will also receive on the effective date a grant of options to purchase 375,000 shares of Expedia's common stock at a fair market value exercise price. Such options will have a ten-year term and will vest in four equal annual installments commencing on the first anniversary of the effective date contingent upon Mr. Barton's continued employment with Expedia. Mr. Barton will also receive on the effective date an initial grant of 25,000 shares of Expedia restricted stock, vesting contingent upon Mr. Barton's continued employment with Expedia through the third anniversary of the effective date. Mr. Barton will be evaluated for future option grants in a manner consistent with similarly situated executives of USA and its subsidiaries.

Mr. Barton will be entitled to participate in welfare, health and life insurance and pension benefit and incentive programs adopted by Expedia on the same basis as similarly situated executives of Expedia, USA and their respective subsidiaries.

SEVERANCE. Upon a termination of Mr. Barton's employment by Expedia without "cause" or by Mr. Barton for "good reason" (as each term is defined in the term sheet), Expedia will continue to pay Mr. Barton his salary for the remainder of the term, as well as pay any earned, but unpaid, base salary and will pay Mr. Barton his deferred compensation balance. Expedia will also pay Mr. Barton the pro rata portion of his annual bonus following the end of the fiscal year of his termination of employment (based upon satisfaction of performance goal formulas). In addition, he will immediately vest in all options and such options will remain exercisable for one year following his date of termination of employment. Although Mr. Barton is not obligated to mitigate any severance amounts, such amounts will be reduced by any compensation earned by Mr. Barton in the event that Mr. Barton becomes employed during the remainder of the term.

CHANGE OF CONTROL. The term sheet provides that upon a change of control of Expedia, all of Mr. Barton's Expedia options (and the USA options granted on the effective date) and other Expedia equity compensation will vest immediately, and such options will remain exercisable for one year from the date of the change of control, notwithstanding any termination of employment.

RESTRICTIVE COVENANTS. The term sheet provides for Mr. Barton to be bound by a covenant not to compete with the business of Expedia (or any of its subsidiaries or affiliates) during the term of his employment and for two years after termination of employment for any reason; but if the non-compete period extends beyond the severance period (under circumstances in which Mr. Barton had been entitled to severance pay), Expedia will pay Mr. Barton $100,000 per year (pro rated on a monthly basis) to the extent it determines to continue the non-compete period beyond the severance period. In addition, Mr. Barton is bound by a two-year covenant not to solicit employees or customers of Expedia

(or any of its subsidiaries or affiliates) and a confidentiality covenant. The term sheet also provides that Expedia will not restrict Mr. Barton's ability to elect to receive any shares of Expedia Class B common stock in connection with the recapitalization of Expedia.

EMPLOYMENT AGREEMENT TERM SHEET WITH MR. STANGER

On July 15, 2001, Expedia entered into a binding term sheet with Mr. Stanger setting forth the material terms of his employment pursuant to an employment agreement that will be entered into prior to the effective date. The agreement will be effective on the effective date and have a three-year term. If the transactions are terminated, the term sheet will be of no further force or effect.

COMPENSATION. Mr. Stanger will receive an annual base salary of $175,000 and will be eligible to receive an annual bonus of 100% of his salary, payable 50% in cash and 50% in Expedia stock options based on achieving agreed-upon Expedia budget goals.

Mr. Stanger will receive on the effective date an initial grant of options to purchase 50,000 shares of Expedia common stock at a fair market value exercise price. Such options will have a ten-year term and will vest in four equal annual installments commencing on the first anniversary of the effective date contingent upon Mr. Stanger's continued employment with Expedia. Mr. Stanger will also receive on the effective date a grant of 10,000 shares of Expedia restricted stock, vesting contingent upon Mr. Stanger's continued employment with Expedia through the third anniversary of the effective date.

Mr. Stanger will be entitled to participate in welfare, health and life insurance and pension benefit and incentive programs adopted by Expedia on the same basis as similarly situated executives of Expedia, USA and their respective subsidiaries.

SEVERANCE. Upon a termination of Mr. Stanger's employment by Expedia without "cause" or by Mr. Stanger for "good reason" (as each term is defined in the term sheet), Expedia will continue to pay Mr. Stanger his salary for the remainder of the term, as well as pay his earned, but unpaid, base salary and will pay Mr. Stanger his deferred compensation balance. In addition, Mr. Stanger will automatically and immediately vest in all of his then-outstanding equity-based compensation awards granted on or prior to August 2, 2001, and such options shall remain exerciseable for one year following his date of termination of employment. Mr. Stanger is obligated to use reasonable best efforts to mitigate any severance payable to him.

CHANGE OF CONTROL. The term sheet provides that upon a change of control of Expedia, all of Mr. Stanger's Expedia options and other Expedia equity compensation will vest immediately, and such options will remain exercisable for one year from the date of the change of control, notwithstanding any termination of employment.

RESTRICTIVE COVENANTS. Pursuant to the term sheet, Mr. Stanger will be bound by covenants not to compete with businesses of Expedia (or its subsidiaries or affiliates) and not to solicit employees or customers of Expedia (or its subsidiaries or affiliates) during the term of his employment and for two years after termination of employment for any reason. In addition, Mr. Stanger has agreed not to divulge or disclose any confidential information of Expedia or its affiliates.

OTHER EMPLOYMENT AGREEMENTS

Expedia and USA agreed in a binding term sheet that Mr. Barton may, in his discretion, cause Expedia to enter into employment agreements with the following members of senior management of Expedia and Travelscape.com, Inc., a wholly owned subsidiary of Expedia, with the terms described below for a term of three years following the effective time:

David Beitel, Vice President, Transportation
Byron D. Bishop, Senior Vice President, Transportation and Core Development
Erik C. Blachford, Senior Vice President, Marketing and Programming

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Simon J. Breakwell, Senior Vice President, International and Managing Director, Expedia Europe
Tom Breitling, President, Travelscape.com, Inc.
Mark S. Britton, Senior Vice President, General Counsel and Secretary
Michael Day, Senior Vice President, Operations
Kathleen K. Dellplain, Senior Vice President, Human Resources
Seth E. Eisner, Senior Vice President, Advertising Revenue
Dhiren Fonseca, Vice President, Transportation
Lloyd Frink, Vice President, Destinations
Allyson Henry, Vice President, International
Robert Hohman, Vice President, Destinations
Howard Mendelsohn, Vice President, Controller
Steve Murch, Vice President, Destinations
Gregory E. Slyngstad, Senior Vice President, Destinations

Under those agreements, upon a termination of the employee by Expedia without "cause" or a resignation by the employee with "good reason" (as each term is defined in the term sheet), the employee will be entitled to: (a) the acceleration and immediate vesting of all unvested Expedia options granted to him on or prior to August 2, 2001, and any attendant warrants granted in connection with the merger; and (b) receive the salary, target bonus and welfare benefits (and any other damages to which he would be entitled) for the remainder of the term, less an offset equal to any amounts earned during the term from other employment, with no obligation to mitigate.

As a condition to entering into the agreements, each of these individuals will agree to a non-compete for a period of one year from the date of termination for any reason. The non-compete will apply to general online travel providers such as Travelocity, Orbitz and Priceline. Each of these individuals will also agree to a one-year non-solicitation covenant and standard confidentiality covenant.

The base salaries to be provided in the employment agreements will be the individuals' respective current salary, as it may be increased during Expedia's currently pending semi-annual performance review in a manner consistent with past practice, unless otherwise agreed by USA and Expedia, and subject to further review and increase at the discretion of Expedia's chief executive officer, any such increases to be approved by Expedia's compensation committee.

Each individual will be entitled to participate in stock option grants after August 2, 2001 (except that such options would not accelerate and vest upon termination without cause or resignation with good reason).

STOCK OPTIONS

All options held by Expedia's non-employee directors pursuant to the 1999 Stock Option Plan for Non-Employee Directors who are not continuing as directors after the effective time, or who cease to be directors for any reason within one year following the effective time of the merger, will become fully exercisable.

Pursuant to the merger agreement, each Expedia optionee, including members of management and the board of directors of Expedia, will be entitled to receive warrants to purchase 0.1920 shares of Expedia for each Expedia option share with respect to options issued on or prior to August 2, 2001 that remain outstanding as of the time of the warrant distribution (see "The Transaction Agreements--The Merger Agreement"). In the event the merger agreement is terminated following the warrant distribution to optionholders, Expedia has agreed that all holders of Expedia common stock (other than holders of Expedia options who have already become entitled to receive the new Expedia warrants) will receive 0.1920 new Expedia warrants for each share of Expedia common stock owned by such holder. Each new Expedia warrant issued with respect to a stock option will be subject to the same vesting schedule as the underlying stock option, which will be unchanged by the merger. Messrs. Barton, Stanger, Bishop, Breakwell and Slyngstad would, based on current option holdings, receive 268,929,

103,527, 196,284, 45,356 and 23,616 warrants, respectively, and the non-employee members of the Expedia board of directors as a group would receive 190,152 warrants.

On August 2, 2001, the compensation committee of the Expedia board of directors issued an aggregate of 1,509,145 options to acquire shares of Expedia common stock pursuant to the Expedia 1999 Stock Option Plan and the Expedia 1999 Amended and Restated Stock Option Plan for Non-Employee Directors, at exercise prices of $44.55 and $48.70.

As part of this grant, Expedia granted to Messrs. Barton, Stanger, Bishop, Breakwell and Slyngstad 125,000, 50,000, 25,000, 25,000 and 50,000 stock options, respectively. Mr. Maffei was granted 100,000 stock options and each of the remaining non-employee directors was granted 5,000 stock options on such date. As noted above, provided that these options are outstanding as of the warrant distribution date, these holders will be entitled to receive the warrants in respect of their options on the same terms as described above.

MICROSOFT'S INTERESTS IN THE TRANSACTIONS

Prior to completing its initial public offering in November 1999, Expedia was a wholly owned subsidiary of Microsoft. Expedia currently is controlled by Microsoft, which owns approximately 67% of the outstanding equity and voting power of Expedia. None of Expedia's directors is currently a director, officer or employee of Microsoft.

As part of Expedia's initial public offering, Expedia entered into various agreements with Microsoft relating to the provision of operating and administrative services to it by Microsoft, its licensing of intellectual property from Microsoft and the allocation of certain tax liabilities between Microsoft and Expedia. The merger agreement provides that certain of these agreements will be amended effective upon closing of the merger. The amendments to these agreements are described under "Proposal No. 4--Election of Directors--Certain Relationships and Related Transactions."

Also, in connection with Expedia's initial public offering, Microsoft entered into the shareholder agreement, which includes, among other things, an agreement by Microsoft not to compete with Expedia, various restrictions on the transfer by Microsoft of its Expedia shares and registration rights for Microsoft. The termination of the shareholder agreement is a condition to the completion of the transactions and is described under "Proposal No. 3--Termination of the Shareholder Agreement."

In connection with the transactions, each of USA and Expedia agreed to grant to Microsoft customary registration rights, including the right to underwritten offerings, relating to USA securities and Expedia securities, if any, owned by Microsoft following completion of the transactions. As part of the registration rights, each of USA and Expedia agreed to file a registration statement on Form S-3 with respect to Microsoft's USA securities and Expedia securities, respectively, and to use its reasonable best efforts to make such registration statement effective as promptly as practicable following the completion of the transactions. Microsoft's registration rights relating to its USA securities are set forth in the voting and election agreement between USA and Microsoft and are described in more detail under "The Transaction Agreements--Other Transaction Agreements--Voting and Election Agreement." Microsoft's registration rights relating to its Expedia securities are set forth in a registration rights agreement that was executed on July 15, 2001. Each of the voting and election agreement and the Microsoft/Expedia registration rights agreement is attached as an exhibit to USA's and Expedia's registration statements of which this joint prospectus/proxy statement is a part.

In addition, Microsoft has had in the past, and expects to continue to have in the future, a range o