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EXPEDIA INC
Form 425
January 28, 2002

Filed by Expedia, Inc.
Pursuant to Rule 165 and Rule 425
under the Securities Act of 1933
Subject Company: Expedia, Inc.
Commission File No. 000-27429

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934, including statements regarding the pending acquisition of a controlling interest in Expedia, Inc. by USA Networks, Inc. Forward-looking statements may be identified by, among other things, the words "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or comparable terms. These statements are only predictions and actual results could differ materially from those anticipated in these statements based upon a number of factors including final adjustments made in closing the quarter and those identified in the Company's filings with the SEC. We have based all of our forward-looking statements on information available to us as of January 25, 2002, and we are not obligated to update any of these forward-looking statements.

Expedia, Inc.

To: All Expedia Stock Option Holders who were Employed as of July 15, 2001, With Outstanding Options as of both August 2, 2001 and on the Warrant Distribution Date (January 25, 2002)

From: Kathy Dellplain
SVP, Human Resources

Date: January 25, 2002

You are receiving this memo because you are a stock option holder who is eligible to receive Expedia warrants pursuant to the USA Networks transaction and you have been issued Expedia warrants as of January 25, 2002.

The purpose of this memo is to provide you with general information concerning your Expedia warrants. Details specific to the warrants being distributed to you, such as the number of warrants you will receive, exercise price, term, and vesting schedule, can be found in the individualized statement, distributed to your mailbox (Bellevue), by your supervisor (Las Vegas), or by e-mail (Europe, Canada, and other remote locations).

THIS MEMO IS ONLY A SUMMARY OF THE MATERIAL TERMS OF THE WARRANTS YOU WILL RECEIVE AND MAY NOT CONTAIN ALL THE INFORMATION THAT MAY BE IMPORTANT TO YOU. FOR A MORE DETAILED DESCRIPTION OF THE WARRANTS AND TO BETTER UNDERSTAND THE TERMS THEREOF, PLEASE REFER TO THE PROSPECTUS THAT IS BEING DELIVERED TO YOU AS A SEPARATE ATTACHMENT IN THIS E-MAIL OR WITH THIS MEMO. WE URGE YOU TO READ THE PROSPECTUS IN ITS ENTIRETY. IF YOU ARE RECEIVING THIS BY E-MAIL AND ARE UNABLE TO OPEN OR DOWNLOAD THE PROSPECTUS, PLEASE CONTACT EXPEDIA BENEFITS AT EXPBENE@EXPEDIA.COM TO RECEIVE A PAPER COPY.

Stock Options eligible for warrants:

Holders of vested and unvested stock options that were a) granted to employees employed as of July 15, 2001, b) granted on or before August 2, 2001, and c) held (outstanding) as of January 25, 2002, are eligible for warrants.

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Overview of what you have received:

On January 25, 2002, eligible Expedia stock option holders received 0.192 Expedia warrants for every one Expedia eligible outstanding option (vested and unvested). Each warrant entitles its holder to purchase one share of Expedia common stock at any time prior to the seventh anniversary of the closing date of the USA transaction, upon payment of the exercise price of \$52.00 per share, subject to adjustment. The warrants 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 period of 90 days following the date of their issue (i.e., through April 25, 2002).

Forfeiture of Warrants as Option Holder

The warrants that are being issued are subject to forfeiture in the event you exercise your underlying options between January 25, 2002 (including any exercise on January 25, 2002) and the closing of the USA merger transaction (anticipated to be February 4, 2002) (the "Closing").

You have the following 4 choices:

1. Do nothing and have exercisable, tradeable warrants once the 90-day restriction lapses and the underlying option vests;
2. Exercise the option between January 25, 2002 (including any exercise on January 25, 2002) and the Closing, hold the shares issued and not make an election in the recapitalization, in which case you forfeit the option holder warrants with respect to the options exercised and instead are eligible to receive the unrestricted warrants to be issued to shareholders in connection with the Closing;
3. Exercise the option between January 25, 2002 (including any exercise on January 25, 2002) and February 1, 2002 (the latest date upon which Paine Webber, the options administrator, can process an options exercise and election to exchange the shares for USA securities), hold the shares issued and make an election in the recapitalization, in which case you forfeit the option holder warrants with respect to the options exercised and instead are eligible to receive the package of USA securities in connection with the Closing. If the exchange is oversubscribed, you will retain your Expedia shares (on a prorated basis) and receive Expedia warrants as a shareholder upon the Closing; or
4. Exercise the option between January 25, 2002 (including any exercise on January 25, 2002) and the Closing, but then sell the shares issued, in which case you forfeit the option holder warrants and the right to any other consideration.

Note: If you are subject to trading restrictions pursuant to the Expedia, Inc. Insider Trading Policy (see below), please keep in mind that the trading window for this quarter is scheduled to open on January 31, 2002. Accordingly, any sale or purchase of Expedia stock may occur on or after that date, through March 15, 2002.

Exercising Options Between January 25, 2002 and Closing

If you wish to exercise your options between January 25, 2002 and the Closing, you should ask Paine Webber for the underlying shares to be issued in street name to facilitate your being able to elect to receive the package of USA securities or hold the Expedia securities.

Issuance & Administration of warrants:

Eligible stock option holders were issued warrants on January 25, 2002. The

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certificates for the warrants have been issued in book-entry form, meaning that no paper certificate will exist. There is nothing to sign or return in relation to the issuance of warrants.

The warrants will be tracked and administered by Mellon Investor Services ("Mellon"). Information on stock option holder warrants will be accessible by web access via Mellon. Sometime prior to April 25, 2002, you will be provided with an information package from Mellon, with your PIN #, an explanation on how to access your account information on the Mellon website, when access is available, and how to exercise or sell warrants via the Mellon website.

Withholding of Taxes From Warrants Upon Exercise or Sale

Mellon, in its capacity as exchange agent/warrant administrator for the option holder warrants, will withhold applicable taxes in connection with any exercise or sale of any option holder warrants based upon the appropriate standard withholding rates for each of the jurisdictions (e.g., US, UK, Belgium) where you are employed. At the time of such exercise or sale, you may elect to have Mellon withhold taxes at a higher rate. Mellon will continue to withhold applicable taxes in connection with the exercise or sale of an option holder warrant even if the warrant holder is no longer employed by Expedia.

Termination of Employment

Under the Expedia stock option plan, employees whose employment is terminated have three months from termination to exercise their vested options. All unvested options will cease to vest and will be forfeited in accordance with their terms. To the extent terminated employees exercise vested options between January 25, 2002 (including any exercise on January 25, 2002) and the Closing, they will be treated as shareholders. To the extent they do not exercise their options between January 25, 2002

(including any exercise on January 25, 2002) and the Closing, they will receive option holder warrants for their vested options, subject to the 90-day restrictions.

Upon termination of employment all unvested warrants will be forfeited, but vested warrants will remain in your account at Mellon (i.e. there is no period, other than the 7-year term of the warrant, within which a terminated employee has to exercise or sell his/her warrants following such termination).

Reminder re. Insider Trading Policy

Under the Expedia, Inc. Insider Trading Policy, employees are considered insiders and therefore restricted to trading within specified trading windows if they (1) possess material nonpublic information, (2) have "pre-publish" access to Dashboard or (3) have access to the finance server. Trading windows begin 2 full trading days following Expedia's public earnings release and end on the 15th day of the last month of the quarter.

Informational Resource

MacKenzie Partners, Inc. (1-800-322-2885 or call collect at 212-929-5500) is a resource available for both shareholders and stock option holders. We encourage you to call them if you have any questions.