

IAC/INTERACTIVECORP  
Form 10-Q  
May 07, 2009

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As filed with the Securities and Exchange Commission on May 7, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2009

or

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

For the transition period from \_\_\_\_\_ to  
Commission File No. 0-20570

**IAC/INTERACTIVECORP**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**59-2712887**  
(I.R.S. Employer  
Identification No.)

**555 West 18<sup>th</sup> Street, New York, New York 10011**  
(Address of Registrant's principal executive offices)

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

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

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Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

|   |   |   |   |
|---|---|---|---|
| Large accelerated<br>filer <input type="checkbox"/> | Accelerated<br>filer <input type="checkbox"/> | Non-accelerated<br>filer <input type="checkbox"/> | Smaller reporting<br>company <input type="checkbox"/> |
|---|---|---|---|

(Do not check if a  
smaller reporting  
company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of April 24, 2009, the following shares of the Registrant's common stock were outstanding:

|                                |             |
|--------------------------------|-------------|
| Common Stock                   | 136,818,520 |
| Class B Common Stock           | 12,799,999  |
| Total outstanding Common Stock | 149,618,519 |

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of April, 24, 2009 was \$1,783,542,784. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant are assumed to be affiliates of the Registrant.

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## PART I FINANCIAL STATEMENTS

## Item 1. Consolidated Financial Statements

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

|   | March 31,<br>2009<br>(unaudited)     | December 31,<br>2008<br>(audited) |
|---|--------------------------------------|-----------------------------------|
|   | (In thousands,<br>except share data) |                                   |
| <b>ASSETS</b>   |                                      |                                   |
| Cash and cash equivalents   | \$ 1,792,795                         | \$ 1,744,994                      |
| Marketable securities   | 216,528                              | 125,592                           |
| Accounts receivable, net of allowance of \$11,441 and \$11,396, respectively  | 91,762                               | 98,402                            |
| Other current assets  | 223,036                              | 217,798                           |
| Total current assets  | 2,324,121                            | 2,186,786                         |
| Property and equipment, net   | 313,196                              | 326,961                           |
| Goodwill  | 1,894,740                            | 1,910,295                         |
| Intangible assets, net  | 390,896                              | 386,756                           |
| Long-term investments   | 141,221                              | 120,582                           |
| Other non-current assets  | 309,526                              | 319,218                           |
| <b>TOTAL ASSETS</b>   | <b>\$ 5,373,700</b>                  | <b>\$ 5,250,598</b>               |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                                      |                                   |
| <b>LIABILITIES:</b>   |                                      |                                   |
| Accounts payable, trade   | \$ 54,238                            | \$ 52,833                         |
| Deferred revenue  | 59,518                               | 50,886                            |
| Accrued expenses and other current liabilities  | 199,341                              | 182,285                           |
| Total current liabilities   | 313,097                              | 286,004                           |
| Long-term obligations   | 95,844                               | 95,844                            |
| Income taxes payable  | 406,814                              | 403,043                           |
| Other long-term liabilities   | 23,204                               | 15,400                            |
| Redeemable noncontrolling interest  | 27,541                               | 22,771                            |
| Commitments and contingencies   |                                      |                                   |
| <b>SHAREHOLDERS' EQUITY:</b>  |                                      |                                   |
| Common stock \$.001 par value; authorized 1,600,000,000 shares; issued 222,181,178 and 210,217,183 shares, respectively, and outstanding 137,331,646 and 127,809,801 shares, respectively | 222                                  | 210                               |
| Class B convertible common stock \$.001 par value; authorized 400,000,000 shares; issued 16,157,499 shares and outstanding 12,799,999 shares  | 16                                   | 16                                |
| Additional paid-in capital  | 11,267,536                           | 11,112,014                        |
| Retained earnings   | 199,059                              | 227,445                           |
| Accumulated other comprehensive (loss) income   | (8,714)                              | 2,180                             |
| Treasury stock 84,849,532 and 82,407,382 shares, respectively   | (6,950,919)                          | (6,914,329)                       |
| Total shareholders' equity  | 4,507,200                            | 4,427,536                         |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   | <b>\$ 5,373,700</b>                  | <b>\$ 5,250,598</b>               |

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

**IAC/INTERACTIVECORP AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

(Unaudited)

|  | <b>Three Months Ended March 31,</b>          |                  |
|--|--|------------------|
|  | <b>2009</b>                                  | <b>2008</b>      |
|  | <b>(In thousands, except per share data)</b> |                  |
| Revenue  | \$ 332,010                                   | \$ 370,656       |
| Costs and expenses:  |  |                  |
| Cost of revenue (exclusive of depreciation shown separately below) | 123,609                                      | 137,835          |
| Selling and marketing expense                                      | 122,213                                      | 113,766          |
| General and administrative expense                                 | 73,634                                       | 80,594           |
| Product development expense  | 18,088                                       | 21,452           |
| Depreciation   | 16,214                                       | 17,259           |
| Amortization of non-cash marketing                                 | 2,305  | 2,796            |
| Amortization of intangibles  | 8,015  | 8,062            |
| Goodwill impairment  | 1,056  |                  |
| <b>Total costs and expenses</b>                                    | <b>365,134</b>                               | <b>381,764</b>   |
| Operating loss   | (33,124)                                     | (11,108)         |
| Other income (expense):  |  |                  |
| Interest income  | 3,728  | 8,073            |
| Interest expense   | (1,464)                                      | (11,978)         |
| Equity in (losses) income of unconsolidated affiliates             | (1,847)                                      | 5,779            |
| Other income   | 146  | 9,817            |
| <b>Total other income, net</b>                                     | <b>563</b>                                   | <b>11,691</b>    |
| (Loss) earnings from continuing operations before income taxes     | (32,561)                                     | 583              |
| Income tax benefit (provision)                                     | 2,679  | (4,036)          |
| <b>Loss from continuing operations</b>                             | <b>(29,882)</b>                              | <b>(3,453)</b>   |
| Income from discontinued operations, net of tax                    | 1,238  | 55,939           |
| <b>Net (loss) earnings</b>   | <b>(28,644)</b>                              | <b>52,486</b>    |
| Net loss attributable to noncontrolling interest                   | 258  | 330              |
| <b>Net (loss) earnings attributable to IAC shareholders</b>        | <b>\$ (28,386)</b>                           | <b>\$ 52,816</b> |
| <b>Per share information attributable to IAC shareholders:</b>     |  |                  |
| Basic loss per share from continuing operations                    | \$ (0.20)                                    | \$ (0.02)        |
| Diluted loss per share from continuing operations                  | \$ (0.20)                                    | \$ (0.02)        |
| Basic (loss) earnings per share                                    | \$ (0.19)                                    | \$ 0.38          |
| Diluted (loss) earnings per share                                  | \$ (0.19)                                    | \$ 0.38          |
| <b>Non-cash compensation expense by function:</b>                  |  |                  |
| Cost of revenue  | \$ 824                                       | \$ 817           |
| Selling and marketing expense                                      | 954  | 945              |
| General and administrative expense                                 | 15,444                                       | 15,692           |
| Product development expense  | 1,358  | 1,432            |
| <b>Total non-cash compensation expense</b>                         | <b>\$ 18,580</b>                             | <b>\$ 18,886</b> |

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

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

|  | Total       | Common<br>Stock \$.001<br>Par Value |         | Class B<br>Convertible<br>Common<br>Stock \$.001<br>Par Value |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accum.<br>Other<br>Comp.<br>(Loss)<br>Income | Treasury<br>Stock |
|--|-------------|-------------------------------------|---------|---|--------|----------------------------------|----------------------|--|-------------------|
|  |             | \$                                  | Shares  | \$  | Shares |                                  |                      |  |                   |
| (In thousands)   |             |                                     |         |   |        |                                  |                      |  |                   |
| <b>Balance as of December 31, 2008</b>   | \$4,427,536 | \$210                               | 210,217 | \$16  | 16,157 | \$11,112,014                     | \$227,445            | \$2,180                                      | \$(6,914,329)     |
| Comprehensive loss:  |             |                                     |         |   |        |                                  |                      |  |                   |
| Net loss attributable to IAC shareholders for the three months ended March 31, 2009  | (28,386)    |                                     |         |   |        |                                  | (28,386)             |  |                   |
| Foreign currency translation, net of tax benefit of \$1,978  | (4,142)     |                                     |         |   |        |                                  |                      | (4,142)                                      |                   |
| Unrealized losses on available-for-sale securities, net of tax benefit of \$3,806  | (6,752)     |                                     |         |   |        |                                  |                      | (6,752)                                      |                   |
| Comprehensive loss   | (39,280)    |                                     |         |   |        |                                  |                      |  |                   |
| Non-cash compensation expense  | 18,706      |                                     |         |   |        | 18,706                           |                      |  |                   |
| Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes | 5,424       |                                     | 419     |   |        | 5,424                            |                      |  |                   |
| Income tax provision related to the exercise of stock options, vesting of restricted stock units and other                     | (5,605)     |                                     |         |   |        | (5,605)                          |                      |  |                   |
| Issuance of common stock upon the exercise of warrants   | 151,264     | 12                                  | 11,545  |   |        | 151,252                          |                      |  |                   |
| Purchase of treasury stock   | (36,590)    |                                     |         |   |        |                                  |                      |  | (36,590)          |
| Fair value of redeemable noncontrolling interest adjustment  | (255)       |                                     |         |   |        | (255)                            |                      |  |                   |
| Equity award modification to settle a vested stock award for cash  | (14,000)    |                                     |         |   |        | (14,000)                         |                      |  |                   |
| <b>Balance as of March 31, 2009</b>  | \$4,507,200 | \$222                               | 222,181 | \$16  | 16,157 | \$11,267,536                     | \$199,059            | \$(8,714)                                    | \$(6,950,919)     |

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

**IAC/INTERACTIVECORP AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited)

|  | Three Months Ended<br>March 31, |                  |
|--|---------------------------------|------------------|
|  | 2009                            | 2008             |
|  | (In thousands)                  |                  |
| <b>Cash flows from operating activities attributable to continuing operations:</b>   |                                 |                  |
| Net (loss) earnings  | \$ (28,644)                     | \$ 52,486        |
| Less: income from discontinued operations, net of tax  | (1,238)                         | (55,939)         |
| <b>Loss from continuing operations</b>   | <b>(29,882)</b>                 | <b>(3,453)</b>   |
| Adjustments to reconcile loss from continuing operations to net cash provided by operating activities attributable to continuing operations: |                                 |                  |
| Depreciation   | 16,214                          | 17,259           |
| Amortization of intangibles  | 8,015                           | 8,062            |
| Goodwill impairment  | 1,056                           |                  |
| Non-cash compensation expense  | 18,580                          | 18,886           |
| Amortization of non-cash marketing   | 2,305                           | 2,796            |
| Deferred income taxes  | (3,937)                         | (5,181)          |
| Equity in losses (income) of unconsolidated affiliates   | 1,847                           | (5,779)          |
| Net increase in the fair value of the derivatives created in the HSE sale and the Expedia spin-off   |                                 | (6,586)          |
| Changes in current assets and liabilities:   |                                 |                  |
| Accounts receivable  | 1,778                           | 13,364           |
| Other current assets   | 1,633                           | (9,261)          |
| Accounts payable and other current liabilities   | 19,122                          | (8,859)          |
| Income taxes payable   | 2,518                           | 9,822            |
| Deferred revenue   | 6,751                           | 3,579            |
| Other, net   | 2,699                           | 1,951            |
| <b>Net cash provided by operating activities attributable to continuing operations</b>   | <b>48,699</b>                   | <b>36,600</b>    |
| <b>Cash flows from investing activities attributable to continuing operations:</b>   |                                 |                  |
| Acquisitions, net of cash acquired   | (11,537)                        | (4,717)          |
| Capital expenditures   | (8,580)                         | (15,848)         |
| Proceeds from sales and maturities of marketable securities  | 26,386                          | 181,035          |
| Purchases of marketable securities   | (118,033)                       | (35,971)         |
| Purchases of long-term investments   | (1,211)                         | (48,391)         |
| Other, net   | (8,402)                         | 347              |
| <b>Net cash (used in) provided by investing activities attributable to continuing operations</b>   | <b>(121,377)</b>                | <b>76,455</b>    |
| <b>Cash flows from financing activities attributable to continuing operations:</b>   |                                 |                  |
| Purchase of treasury stock   | (29,176)                        | (145,590)        |
| Issuance of common stock, net of withholding taxes   | 148,778                         | (6,016)          |
| Excess tax benefits from stock-based awards  | 86                              | 195              |
| Other, net   | 1,054                           | 262              |
| <b>Net cash provided by (used in) financing activities attributable to continuing operations</b>   | <b>120,742</b>                  | <b>(151,149)</b> |



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|   |              |              |
|---|--------------|--------------|
| <b>Total cash provided by (used in) continuing operations</b>                               | 48,064       | (38,094)     |
| Net cash (used in) provided by operating activities attributable to discontinued operations | (527)        | 112,966      |
| Net cash used in investing activities attributable to discontinued operations               |              | (430,250)    |
| Net cash used in financing activities attributable to discontinued operations               |              | (8,582)      |
| <b>Total cash used in discontinued operations</b>   | (527)        | (325,866)    |
| Effect of exchange rate changes on cash and cash equivalents                                | 264          | 12,708       |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                 | 47,801       | (351,252)    |
| Cash and cash equivalents at beginning of period  | 1,744,994    | 1,585,302    |
| <b>Cash and cash equivalents at end of period</b>   | \$ 1,792,795 | \$ 1,234,050 |

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

**IAC/INTERACTIVECORP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

IAC operates more than 35 leading and diversified Internet businesses across 40 countries... our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. IAC includes the businesses comprising its Media & Advertising segment; its Match and ServiceMagic segments; the businesses comprising its Emerging Businesses segment; and certain investments in unconsolidated affiliates.

All references to "IAC," the "Company," "we," "our" or "us" in this report are to IAC/InterActiveCorp.

**Basis of Presentation**

The consolidated financial statements include the accounts of the Company, all entities that are wholly-owned by the Company and all voting controlled subsidiaries or affiliates of the Company. The Company has no variable interest entities. Intercompany transactions and accounts have been eliminated. Investments in entities in which the Company has the ability to exercise significant influence, but does not own a controlling voting interest, are accounted for using the equity method and are included in "Long-term investments" in the accompanying consolidated balance sheet.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2008, as amended.

**Use of Estimates**

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

Significant estimates underlying the accompanying consolidated financial statements include: recovery of marketable securities; the allowance for doubtful accounts and other revenue related allowances; recoverability of long-lived assets, including definite-lived intangible assets; recovery of goodwill and indefinite-lived intangible assets; recovery of derivative assets; income taxes payable and deferred income taxes, including related reserves and valuation allowances; and assumptions related to the determination of stock-based compensation.

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## Goodwill and Indefinite-Lived Intangible Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill acquired in business combinations is assigned to the reporting units that are expected to benefit from the combination as of the acquisition date. The Company tests goodwill and indefinite-lived intangible assets for impairment annually as of October 1, or more frequently if events or changes in circumstances indicate that the assets might be impaired. If the carrying amount of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the excess is recorded. If the carrying amount of an indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss equal to the excess is recorded.

The Company's reporting units are consistent with its determination of its operating segments. Goodwill is tested for impairment at the reporting unit level. The Company's operating segments, reporting units and reportable segments are as follows:

| Operating Segment<br>and<br>Reporting Unit | Reportable<br>Segment |
|--|-----------------------|
| IAC Search & Media                         | Media & Advertising   |
| Citysearch                                 | Media & Advertising   |
| Match                                      | Match                 |
| ServiceMagic                               | ServiceMagic          |
| Shoebuy                                    | Emerging Businesses   |
| InstantAction.com                          | Emerging Businesses   |
| Connected Ventures                         | Emerging Businesses   |

Certain reporting units are currently operating in dynamic industry segments. These include IAC Search & Media and InstantAction.com. If actual operating results of these businesses vary significantly from anticipated results, the future impairments of goodwill and/or other intangible assets could occur. To illustrate the magnitude of potential impairment charges relative to future changes in estimated fair value, had the estimated fair value of each of these reporting units been hypothetically lower by 10% as of October 1, 2008, the aggregate book value of goodwill would have exceeded fair value by approximately \$140 million at IAC Search & Media and \$4 million at InstantAction.com. Had the estimated fair values of each of these reporting units been hypothetically lower by 20% as of October 1, 2008, the book value of goodwill would have exceeded fair value by approximately \$330 million at IAC Search & Media and \$8 million at InstantAction.com.

## Reclassifications

Effective January 1, 2009, the Company adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 changed the accounting for and reporting of minority interest (also referred to as noncontrolling interest) in the Company's consolidated financial statements. Upon adoption, such noncontrolling interests are reported on the consolidated balance sheet within shareholders' equity, separately from the Company's equity. However, in accordance with FASB Emerging Issues Task Force Topic No. D-98, "Classification and Measurement of Redeemable Securities," securities that are redeemable at the option of the holder and not solely within the control of the issuer, must be classified outside of shareholders' equity. Since the Company's noncontrolling interests are exercisable

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

outside the control of IAC these interests are included in the mezzanine section of the accompanying consolidated balance sheet, outside of shareholders' equity. Upon adoption of SFAS No. 160, certain prior period amounts were reclassified to conform to the current period financial statement presentation.

The accompanying unaudited consolidated statements of operations and cash flows for the three months ended March 31, 2008 have been reclassified to present Entertainment Publications, Inc. ("EPI"), which previously comprised IAC's former Entertainment segment, and HSN, Inc. ("HSNi"), Interval Leisure Group, Inc. ("ILG"), Ticketmaster Entertainment, Inc. ("Ticketmaster") and Tree.com, Inc. ("Tree.com"), which were spun-off into separate independent public companies on August 20, 2008 (the "Spin-Off"), as discontinued operations.

Certain prior period amounts have been reclassified to conform to the current year presentation.

## NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS

## Property and equipment, net

Property and equipment, net is comprised of (in thousands):

|   | March 31,<br>2009 | December 31,<br>2008 |
|---|-------------------|----------------------|
| Buildings and leasehold improvements            | \$ 227,290        | \$ 229,474           |
| Computer equipment and capitalized software     | 194,765           | 222,131              |
| Furniture and other equipment                   | 41,143            | 41,767               |
| Projects in progress                            | 14,761            | 18,482               |
| Land  | 5,117             | 5,117                |
|   | 483,076           | 516,971              |
| Less: accumulated depreciation and amortization | (169,880)         | (190,010)            |
| Property and equipment, net                     | \$ 313,196        | \$ 326,961           |

## Accumulated other comprehensive (loss) income

Accumulated other comprehensive (loss) income, net of tax, is comprised of (in thousands):

|  | March 31,<br>2009 | December 31,<br>2008 |
|--|-------------------|----------------------|
| Foreign currency translation, net of tax                       | \$ 1,204          | \$ 5,346             |
| Unrealized losses on available-for-sale securities, net of tax | (9,918)           | (3,166)              |
| Accumulated other comprehensive (loss) income, net of tax      | \$ (8,714)        | \$ 2,180             |

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS (Continued)

## Revenue

Revenue is comprised of (in thousands):

|                 | Three Months Ended<br>March 31, |                   |
|-----------------|---------------------------------|-------------------|
|                 | 2009                            | 2008              |
| Service revenue | \$ 306,742                      | \$ 346,109        |
| Product revenue | 25,268                          | 24,547            |
| <b>Revenue</b>  | <b>\$ 332,010</b>               | <b>\$ 370,656</b> |

## Comprehensive (loss) income

Comprehensive (loss) income is comprised of (in thousands):

|  | Three Months Ended<br>March 31, |                  |
|--|---------------------------------|------------------|
|  | 2009                            | 2008             |
| Net (loss) earnings attributable to IAC shareholders           | \$(28,386)                      | \$ 52,816        |
| Foreign currency translation, net of tax                       | (4,142)                         | 21,418           |
| Unrealized losses on available-for-sale securities, net of tax | (6,752)                         | (16,994)         |
| Other comprehensive (loss) income                              | (10,894)                        | 4,424            |
| <b>Comprehensive (loss) income</b>                             | <b>\$(39,280)</b>               | <b>\$ 57,240</b> |

## NOTE 3 INCOME TAXES

The Company calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28 and FASB Interpretation No. 18. At the end of each interim period, the Company makes its best estimate of the annual expected effective tax rate and applies that rate to its ordinary year-to-date earnings or loss. The income tax provision or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates, tax status, or judgment on the realizability of a beginning-of-the-year deferred tax asset in future years is recognized in the interim period in which the change occurs.

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income (or loss) for the year, projections of the proportion of income (or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision or benefit for income taxes may change as new events occur, more experience is acquired, additional information is obtained or our tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the quarter in which the change occurs.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (Continued)

For the three months ended March 31, 2009, the Company recorded an income tax benefit for continuing operations of \$2.7 million on a pre-tax loss of \$32.6 million which represents an effective tax rate of 8%. For the three months ended March 31, 2008, the Company recorded an income tax provision for continuing operations of \$4.0 million on pre-tax income of \$0.6 million. The tax rate for the three months ended March 31, 2009 is lower than the federal statutory rate of 35% due principally to an increase in the valuation allowance on deferred tax assets related to losses from equity investments, non-deductible transaction costs related to the pending sale of Match Europe to Meetic, interest on tax contingencies and state taxes, partially offset by foreign income taxed at lower rates. The tax rate for the three months ended March 31, 2008 is higher than the federal statutory rate of 35% due principally to non-deductible costs related to the Spin-Off, interest on tax contingencies, a write-off of a deferred tax asset related to executive compensation and state taxes, partially offset by foreign income taxed at lower rates.

At March 31, 2009 and December 31, 2008, unrecognized tax benefits, including interest, were \$422.9 million and \$422.3 million, respectively. Total unrecognized tax benefits as of March 31, 2009 include \$15.9 million that have been netted against the related deferred tax assets. Of the remaining balance, \$406.8 million and \$0.2 million are reflected in "non-current income taxes payable" and "accrued expenses and other current liabilities", respectively. Unrecognized tax benefits for the three months ended March 31, 2009 increased by \$0.6 million due principally to interest, partially offset by the effective settlement of certain prior year tax positions with the Internal Revenue Service ("IRS") relating to the reversal of deductible temporary differences. Included in unrecognized tax benefits at March 31, 2009 is \$125.7 million for tax positions which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. If unrecognized tax benefits as of March 31, 2009 are subsequently recognized, \$67.4 million and \$179.9 million, net of related deferred tax assets and interest, would reduce income tax expense from continuing operations and discontinued operations, respectively. In addition, a continuing operations tax provision of \$55.1 million would be required upon the subsequent recognition of unrecognized tax benefits for an increase in the Company's valuation allowance against certain deferred tax assets.

The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in the income tax benefit for continuing operations for the three months ended March 31, 2009 is a \$2.6 million expense, net of related deferred taxes of \$1.7 million, for interest on unrecognized tax benefits. At March 31, 2009 and December 31, 2008, the Company has accrued \$53.5 million and \$49.7 million, respectively, for the payment of interest. There are no material accruals for penalties.

The Company is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by the Company are recorded in the period they become known.

The IRS is currently examining the Company's tax returns for the years ended December 31, 2001 through 2003. The statute of limitations for these years has been extended to December 31, 2009. Various state, local and foreign jurisdictions are currently under examination, the most significant of

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 3 INCOME TAXES (Continued)

which are California, Florida, New York and New York City, for various tax years beginning with December 31, 2001. These examinations are expected to be completed by 2010. In early 2009, the IRS commenced an audit of the Company's tax returns for the years ended December 31, 2004 through 2006. The statute of limitations for these years has been extended and this examination is expected to be completed in 2011. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by \$13.0 million within twelve months of the current reporting date primarily due to the reversal of deductible temporary differences which will primarily result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits, while potentially significant, cannot be made.

## NOTE 4 GOODWILL AND INTANGIBLE ASSETS

The balance of goodwill and intangible assets, net is as follows (in thousands):

|   | March 31,<br>2009 | December 31,<br>2008 |
|---|-------------------|----------------------|
| Goodwill                                      | \$ 1,894,740      | \$ 1,910,295         |
| Intangible assets with indefinite lives       | 337,313           | 337,313              |
| Intangible assets with definite lives, net    | 53,583            | 49,443               |
| <br>Total goodwill and intangible assets, net | <br>\$ 2,285,636  | <br>\$ 2,297,051     |

The following table presents the balance of goodwill by segment, including the changes in the carrying amount of goodwill, for the three months ended March 31, 2009 (in thousands):

|                     | Balance as<br>of<br>January 1,<br>2009 | Additions     | (Deductions)    | Impairment     | Foreign<br>Exchange<br>Translation | Balance as<br>of<br>March 31,<br>2009 |
|---------------------|--|---------------|-----------------|----------------|------------------------------------|---------------------------------------|
| Media & Advertising | \$ 1,461,097                           | \$ 8,028      | \$ (1,407)      | \$             | \$ 3                               | \$ 1,467,721                          |
| Match               | 225,558                                |               |                 |                | 760                                | 226,318                               |
| ServiceMagic        | 107,369                                | 5,053         | (1,802)         |                | 281                                | 110,901                               |
| Emerging Businesses | 116,271                                |               | (25,109)        | (1,056)        | (306)                              | 89,800                                |
| <br>Total           | <br>\$ 1,910,295                       | <br>\$ 13,081 | <br>\$ (28,318) | <br>\$ (1,056) | <br>\$ 738                         | <br>\$ 1,894,740                      |

Additions relate to acquisitions. Deductions principally relate to the sale of ReserveAmerica on January 31, 2009.

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 4 GOODWILL AND INTANGIBLE ASSETS (Continued)

Intangible assets with indefinite lives relate to trade names and trademarks acquired in various acquisitions. At March 31, 2009, intangible assets with definite lives relate to the following (in thousands):

|                         | Cost       | Accumulated<br>Amortization | Net       | Weighted-Average<br>Amortization Life<br>(Years) |
|-------------------------|------------|-----------------------------|-----------|--|
| Technology              | \$ 115,190 | \$ (84,560)                 | \$ 30,630 | 4.9  |
| Supplier agreements     | 23,595     | (11,290)                    | 12,305    | 6.0  |
| Distribution agreements | 4,600      | (4,258)                     | 342       | 4.0  |
| Customer lists          | 2,559      | (2,320)                     | 239       | 1.6  |
| Other                   | 22,676     | (12,609)                    | 10,067    | 3.4  |
| Total                   | \$ 168,620 | \$ (115,037)                | \$ 53,583 |  |

At December 31, 2008, intangible assets with definite lives relate to the following (in thousands):

|                         | Cost       | Accumulated<br>Amortization | Net       | Weighted-Average<br>Amortization Life<br>(Years) |
|-------------------------|------------|-----------------------------|-----------|--|
| Technology              | \$ 113,599 | \$ (78,617)                 | \$ 34,982 | 4.9  |
| Supplier agreements     | 22,370     | (10,302)                    | 12,068    | 6.0  |
| Distribution agreements | 4,600      | (3,969)                     | 631       | 4.0  |
| Customer lists          | 2,639      | (2,472)                     | 167       | 1.8  |
| Other                   | 17,846     | (16,251)                    | 1,595     | 2.8  |
| Total                   | \$ 161,054 | \$ (111,611)                | \$ 49,443 |  |

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2008 balances, such amortization for the next five years and thereafter is estimated to be as follows (in thousands):

| Years Ending December 31, |           |
|---------------------------|-----------|
| 2009                      | \$ 27,821 |
| 2010                      | 14,942    |
| 2011                      | 2,500     |
| 2012                      | 2,267     |
| 2013                      | 1,363     |
| 2014                      | 550       |
|                           | \$ 49,443 |



## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5 EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted (loss) earnings per share attributable to IAC shareholders.

|  | Three Months Ended March 31, |             |            |            |
|--|------------------------------|-------------|------------|------------|
|  | 2009                         |             | 2008       |            |
|  | Basic                        | Diluted     | Basic      | Diluted    |
| (In thousands, except per share data)                                |                              |             |            |            |
| <b>Numerator:</b>  |                              |             |            |            |
| Loss from continuing operations                                      | \$ (29,882)                  | \$ (29,882) | \$ (3,453) | \$ (3,453) |
| Net loss attributable to noncontrolling interest                     | 258                          | 258         | 330        | 330        |
| Loss from continuing operations attributable to IAC shareholders (a) | (29,624)                     | (29,624)    | (3,123)    | (3,123)    |
| Income from discontinued operations, net of tax                      | 1,238                        | 1,238       | 55,939     | 55,939     |
| Net (loss) earnings attributable to IAC shareholders                 | \$ (28,386)                  | \$ (28,386) | \$ 52,816  | \$ 52,816  |
| <b>Denominator:</b>  |                              |             |            |            |
| Weighted average basic shares outstanding                            | 147,776                      | 147,776     | 139,383    | 139,383    |
| Dilutive securities including stock options, warrants and RSUs       |                              |             |            |            |
| Denominator for earnings per share weighted average shares (b)       | 147,776                      | 147,776     | 139,383    | 139,383    |
| <b>(Loss) earnings per share attributable to IAC shareholders:</b>   |                              |             |            |            |
| Loss per share from continuing operations                            | \$ (0.20)                    | \$ (0.20)   | \$ (0.02)  | \$ (0.02)  |
| Discontinued operations, net of tax                                  | 0.01                         | 0.01        | 0.40       | 0.40       |
| (Loss) earnings per share  | \$ (0.19)                    | \$ (0.19)   | \$ 0.38    | \$ 0.38    |

(a) For the three months ended March 31, 2008, approximately 0.2 million weighted average common shares related to the assumed conversion of the Ask Zero Coupon Convertible Subordinated Notes due June 1, 2008 (the "Convertible Notes") were excluded from the calculation of diluted earnings per share because the effect would be anti-dilutive. During the second quarter of 2008 all outstanding Convertible Notes were fully converted.

(b) Weighted average common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options and warrants, vesting of restricted stock units and conversion of the Convertible Notes if the effect is dilutive. Because the Company had a loss from continuing operations for both the three months ended March 31, 2009 and 2008, no potentially dilutive securities were included in the denominator for computing diluted earnings per share, since their impact would be anti-dilutive. Accordingly, the weighted average basic shares outstanding were used to compute all earnings per share amounts. For the three months ended March 31, 2009 and 2008, approximately 39.2 million and 53.4 million shares, respectively, related to potentially dilutive securities were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 6 SEGMENT INFORMATION

The overall concept that IAC employs in determining its operating segments is to present the financial information in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of products or services offered or the target market. Entities included in discontinued operations, as described in Note 8, are excluded from the schedules below. Operating segments are combined for reporting purposes if they have similar economic characteristics and meet the aggregation criteria of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

|                           | Three Months Ended<br>March 31, |                   |
|---------------------------|---------------------------------|-------------------|
|                           | 2009                            | 2008              |
|                           | (In thousands)                  |                   |
| <b>Revenue:</b>           |                                 |                   |
| Media & Advertising       | \$ 167,620                      | \$ 215,538        |
| Match                     | 90,060                          | 90,536            |
| ServiceMagic              | 31,353                          | 28,948            |
| Emerging Businesses       | 44,022                          | 43,763            |
| Inter-segment elimination | (1,045)                         | (8,129)           |
| <b>Total</b>              | <b>\$ 332,010</b>               | <b>\$ 370,656</b> |

|                                 | Three Months Ended<br>March 31, |                    |
|---------------------------------|---------------------------------|--------------------|
|                                 | 2009                            | 2008               |
|                                 | (In thousands)                  |                    |
| <b>Operating Income (Loss):</b> |                                 |                    |
| Media & Advertising             | \$ 1,088                        | \$ 31,299          |
| Match                           | 9,742                           | 7,136              |
| ServiceMagic                    | 2,003                           | 5,610              |
| Emerging Businesses             | (12,700)                        | (9,308)            |
| Corporate                       | (33,257)                        | (45,845)           |
| <b>Total</b>                    | <b>\$ (33,124)</b>              | <b>\$ (11,108)</b> |

The Company's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of non-cash marketing, (3) amortization and impairment of intangibles, (4) goodwill impairment, (5) pro forma adjustments for significant acquisitions, and (6) one-time items. The Company believes this measure is useful to investors because it represents the consolidated operating results from IAC's segments, taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to IAC's statement of operations of certain expenses, including non-cash compensation, non-cash marketing, and acquisition related accounting. IAC endeavors to compensate for the limitations of the non-GAAP measure presented by providing the comparable GAAP measure with equal or greater prominence, financial statements

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 6 SEGMENT INFORMATION (Continued)

prepared in accordance with generally accepted accounting principles, and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measure.

|  | Three Months Ended<br>March 31, |                  |
|--|---------------------------------|------------------|
|  | 2009                            | 2008             |
|  | (In thousands)                  |                  |
| <b>Operating Income Before Amortization:</b> |                                 |                  |
| Media & Advertising                          | \$ 10,134                       | \$ 37,529        |
| Match  | 9,941                           | 10,139           |
| ServiceMagic                                 | 2,801                           | 6,149            |
| Emerging Businesses                          | (11,056)                        | (7,825)          |
| Corporate                                    | (14,988)                        | (27,356)         |
| <b>Total</b>                                 | <b>\$ (3,168)</b>               | <b>\$ 18,636</b> |

The following tables reconcile Operating Income Before Amortization to operating income (loss) for the Company's reporting segments and to net (loss) earnings attributable to IAC shareholders in total (in thousands):

|   | Three Months Ended March 31, 2009             |                                     |  |                                   |                        |                               |
|---|---|-------------------------------------|--|-----------------------------------|------------------------|-------------------------------|
|   | Operating<br>Income<br>Before<br>Amortization | Non-Cash<br>Compensation<br>Expense | Amortization<br>of Non-Cash<br>Marketing | Amortization<br>of<br>Intangibles | Goodwill<br>Impairment | Operating<br>Income<br>(Loss) |
| Media & Advertising                                 | \$ 10,134                                     | \$ (147)                            | \$ (2,305)                               | \$ (6,594)                        | \$                     | \$ 1,088                      |
| Match   | 9,941   | (77)                                |  | (122)                             |                        | 9,742                         |
| ServiceMagic  | 2,801   | (150)                               |  | (648)                             |                        | 2,003                         |
| Emerging<br>Businesses                              | (11,056)                                      | 63                                  |  | (651)                             | (1,056)                | (12,700)                      |
| Corporate   | (14,988)                                      | (18,269)                            |  |                                   |                        | (33,257)                      |
| <b>Total</b>  | <b>\$ (3,168)</b>                             | <b>\$ (18,580)</b>                  | <b>\$ (2,305)</b>                        | <b>\$ (8,015)</b>                 | <b>\$ (1,056)</b>      | <b>(33,124)</b>               |
| Other income, net                                   |   |                                     |  |                                   |                        | 563                           |
| Loss from continuing operations before income taxes |   |                                     |  |                                   |                        | (32,561)                      |
| Income tax benefit                                  |   |                                     |  |                                   |                        | 2,679                         |
| Loss from continuing operations                     |   |                                     |  |                                   |                        | (29,882)                      |
| Income from discontinued operations, net of tax     |   |                                     |  |                                   |                        | 1,238                         |
| Net loss  |   |                                     |  |                                   |                        | (28,644)                      |
| Net loss attributable to noncontrolling interest    |   |                                     |  |                                   |                        | 258                           |
| Net loss attributable to IAC shareholders           |   |                                     |  |                                   |                        | \$ (28,386)                   |

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 6 SEGMENT INFORMATION (Continued)

|   | Three Months Ended March 31, 2008             |                                     |  |                                   |                               |
|---|---|-------------------------------------|--|-----------------------------------|-------------------------------|
|   | Operating<br>Income<br>Before<br>Amortization | Non-Cash<br>Compensation<br>Expense | Amortization<br>of Non-Cash<br>Marketing | Amortization<br>of<br>Intangibles | Operating<br>Income<br>(Loss) |
| Media & Advertising                                     | \$ 37,529                                     | \$                                  | \$                                       | \$ (6,230)                        | \$ 31,299                     |
| Match   | 10,139  |                                     | (2,796)                                  | (207)                             | 7,136                         |
| ServiceMagic  | 6,149   | (156)                               |  | (383)                             | 5,610                         |
| Emerging Businesses                                     | (7,825)                                       | (241)                               |  | (1,242)                           | (9,308)                       |
| Corporate   | (27,356)                                      | (18,489)                            |  |                                   | (45,845)                      |
| Total   | \$ 18,636                                     | \$ (18,886)                         | \$ (2,796)                               | \$ (8,062)                        | (11,108)                      |
| Other income, net                                       |   |                                     |  |                                   | 11,691                        |
| Earnings from continuing operations before income taxes |   |                                     |  |                                   | 583                           |
| Income tax provision                                    |   |                                     |  |                                   | (4,036)                       |
| Loss from continuing operations                         |   |                                     |  |                                   | (3,453)                       |
| Income from discontinued operations, net of tax         |   |                                     |  |                                   | 55,939                        |
| Net earnings  |   |                                     |  |                                   | 52,486                        |
| Net loss attributable to noncontrolling interest        |   |                                     |  |                                   | 330                           |
| Net earnings attributable to IAC shareholders           |   |                                     |  |                                   | \$ 52,816                     |

The following table presents depreciation by segment:

|                      | Three Months Ended<br>March 31, |           |
|----------------------|---------------------------------|-----------|
|                      | 2009                            | 2008      |
|                      | (In thousands)                  |           |
| <b>Depreciation:</b> |                                 |           |
| Media & Advertising  | \$ 8,537                        | \$ 9,508  |
| Match                | 2,408                           | 2,075     |
| ServiceMagic         | 801                             | 794       |
| Emerging Businesses  | 1,709                           | 1,628     |
| Corporate            | 2,759                           | 3,254     |
| <b>Total</b>         | \$ 16,214                       | \$ 17,259 |

The Company maintains operations in the United States, the United Kingdom and other international territories. Geographic information about the United States and international territories is presented below:

|                 | Three Months Ended<br>March 31, |      |
|-----------------|---------------------------------|------|
|                 | 2009                            | 2008 |
|                 | (In thousands)                  |      |
| <b>Revenue:</b> |                                 |      |

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|                     |                   |                   |
|---------------------|-------------------|-------------------|
| United States       | \$ 271,937        | \$ 298,401        |
| All other countries | 60,073            | 72,255            |
| <b>Total</b>        | <b>\$ 332,010</b> | <b>\$ 370,656</b> |

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 6 SEGMENT INFORMATION (Continued)

|  | March 31,<br>2009 | December 31,<br>2008 |
|--|-------------------|----------------------|
| (In thousands)   |                   |                      |
| <b>Long-lived assets (excluding goodwill and intangible assets):</b> |                   |                      |
| United States  | \$ 311,146        | \$ 324,734           |
| All other countries  | 2,050             | 2,227                |
| <b>Total</b>   | <b>\$ 313,196</b> | <b>\$ 326,961</b>    |

## NOTE 7 FAIR VALUE MEASUREMENTS

In accordance with SFAS No. 157, "Fair Value Measurements," the Company categorizes its assets and liabilities measured at fair value into a fair value hierarchy that prioritizes the assumptions used in pricing the asset or liability into the following three levels:

Level 1: Observable inputs such as quoted prices for identical assets and liabilities in active markets obtained from independent sources.

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs for which there is little or no market data and require the Company to develop its own assumptions, based on the best information available in the circumstances, about the assumptions market participants would use in pricing the asset or liability.

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis:

|  | March 31, 2009   |   |  |                                     |
|--|--|---|--|-------------------------------------|
|  | Quoted<br>Market<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair Value<br>Measurements |
| (In thousands)                           |  |   |  |                                     |
| Marketable securities                    | \$ 215,484   | \$ 1,044  | \$   | \$ 216,528                          |
| Long-term investments                    | 27,875   |   | 10,020   | 37,895                              |
| Derivative asset created in the HSE sale |  |   | 53,582   | 53,582                              |
| <b>Total</b>                             | <b>\$ 243,359</b>  | <b>\$ 1,044</b>   | <b>\$ 63,602</b>                                   | <b>\$ 308,005</b>                   |

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

|  | December 31, 2008  |   |  |                                     |                |  |  |  |
|--|--|---|--|-------------------------------------|----------------|--|--|--|
|  | Quoted<br>Market<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair Value<br>Measurements |                |  |  |  |
|  |  |   |  |                                     | (In thousands) |  |  |  |
|  |  |   |  |                                     |                |  |  |  |
| Marketable securities                    | \$ 124,741   | \$ 851  | \$   | \$ 125,592                          |                |  |  |  |
| Long-term investments                    | 38,760   |   | 10,725   | 49,485                              |                |  |  |  |
| Derivative asset created in the HSE sale |  |   | 57,189   | 57,189                              |                |  |  |  |
| Total                                    | \$ 163,501   | \$ 851  | \$ 67,914  | \$ 232,266                          |                |  |  |  |

The following tables present the changes in the Company's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

|   | For The Three Months Ended March 31,<br>2009 |  |
|---|--|--|
|   | Long-Term<br>Investments                     | Derivative Asset<br>Created in the<br>HSE Sale |
|   | (In thousands)                               |  |
| Balance at January 1, 2009              | \$ 10,725                                    | \$ 57,189                                      |
| Total net gains or losses (unrealized): |  |  |
| Included in other comprehensive income  | (705)  | (3,607)  |
| Balance at March 31, 2009               | \$ 10,020                                    | \$ 53,582                                      |

|  | For The Three Months Ended March 31,<br>2008 |  |   |
|--|--|--|---|
|  | Long-Term<br>Investments                     | Net  |   |
|  |  | Derivatives<br>Created in the<br>Expedia<br>Spin-Off | Derivative<br>Asset<br>Created in<br>the HSE Sale |
| (In thousands)                                       |  |  |   |
| Balance at January 1, 2008                           | \$ 14,763                                    | \$ 1,100   | \$ 54,656   |
| Total net gains or losses (realized and unrealized): |  |  |   |
| Included in earnings                                 |  | 2,300  | 4,286   |
| Included in other comprehensive income               | (970)  |  | 4,061   |
| Balance at March 31, 2008                            | \$ 13,793                                    | \$ 3,400   | \$ 63,003   |

There were no gains or losses included in earnings for the three months ended March 31, 2009 relating to the Company's assets and liabilities that are measured at fair value on a recurring basis





## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

using significant unobservable inputs (Level 3). The following table presents the gains and losses included in earnings for the three months ended March 31, 2008:

|   | Net<br>Derivatives<br>Created in the<br>Expedia<br>Spin-Off | Derivative<br>Asset<br>Created in<br>the<br>HSE Sale |
|---|---|--|
|   | (In thousands)  |  |
| Total gains included in earnings for the three months ended March 31, 2008:                 |   |  |
| Other income  | \$ 2,300  | \$ 4,286   |
| <b>Total</b>  | <b>\$ 2,300</b>   | <b>\$ 4,286</b>                                      |
| Change in unrealized gains relating to assets and liabilities still held at March 31, 2008: |   |  |
| Other income  | \$ 2,300  | \$ 4,286   |
| <b>Total</b>  | <b>\$ 2,300</b>   | <b>\$ 4,286</b>                                      |

**Long-term investments**

Long-term investments in the tables above that are measured at fair value using significant unobservable inputs (Level 3) are available-for-sale auction rate securities accounted for in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The auction rate securities are valued by discounting the estimated future cash flow streams of the securities over the life of the securities. Credit spreads and other risk factors are also considered in establishing a fair value. At March 31, 2009, the auction rate securities are rated either AA-/Baa1 or A/Baa1. Due to their high credit rating and the Company's ability and intent to hold these securities until recovery, the unrealized loss of \$5.0 million related to these securities is not considered to be an other-than-temporary impairment at March 31, 2009. The auction rate securities mature in 2025 and 2035.

**Derivative asset created in the HSE sale**

As consideration for the sale of Home Shopping Europe GmbH & Co. KG, and its affiliated station HSE24 ("HSE") on June 19, 2007, IAC received approximately 5.5 million shares of ARO stock (the "ARO Shares") plus additional consideration in the form of a contingent value right ("CVR"). The CVR has value of up to €54 million within three years from the date of sale. ARO shares are listed on the German stock exchange (XETRA: ARO) and as a result, IAC is exposed to changes in ARO's stock price. The ultimate value of the CVR is dependent, in part, upon the average closing value of the ARO Shares for the 90 days preceding June 19, 2010 (the "Average Value"). To the extent that the Average Value is equal to or less than €141 million, IAC will receive a cash payment equal to €54 million. To the extent that the Average Value is equal to or greater than €195 million, IAC will receive no additional consideration. To the extent that the Average Value is between €141 million and €195 million, IAC will receive a pro rata portion of the €54 million. If the closing value of an ARO share equals or exceeds €35.68 per share for at least 30 consecutive trading days during the three year period from June 20, 2007 through June 19, 2010, the CVR expires without any payment being made. The CVR is accounted for as a derivative asset and maintained at fair value using Monte Carlo

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

simulation relying on various observable and unobservable inputs including risk free interest rates, stock price volatility and credit risk. The CVR is included in "Other non-current assets" in the accompanying consolidated balance sheet.

## NOTE 8 DISCONTINUED OPERATIONS

On August 20, 2008, IAC completed the spin-off of HSNi, ILG, Ticketmaster and Tree.com. In addition, on May 30, 2008, IAC sold EPI. Accordingly, discontinued operations include, HSNi, ILG, Ticketmaster, Tree.com and EPI through March 31, 2008 and Quiz TV Limited and iBuy for all periods presented.

The net revenue and net earnings for the aforementioned discontinued operations for the applicable periods were as follows (in thousands):

|  | Three Months Ended<br>March 31, |              |
|--|---------------------------------|--------------|
|  | 2009                            | 2008         |
| Revenue  | \$                              | \$ 1,232,962 |
| Earnings before income taxes and noncontrolling interest | \$ 2,278                        | \$ 83,560    |
| Income tax provision                                     | (1,040)                         | (28,186)     |
| Net loss attributable to noncontrolling interest         |                                 | 565          |
| Net earnings   | \$ 1,238                        | \$ 55,939    |

## NOTE 9 CONTINGENCIES

In the ordinary course of business, the Company is a party to various lawsuits. The Company establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where we believe an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that resolving claims against us, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of the Company, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. It is possible that an unfavorable outcome of one or more of these lawsuits could have a material impact on the liquidity, results of operations, or financial condition of the Company. The Company also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 3 for additional information related to income tax contingencies.

## NOTE 10 SUPPLEMENTAL CASH FLOW INFORMATION

## Supplemental Disclosure of Non-Cash Transactions

On January 31, 2009, IAC completed the sale of ReserveAmerica to The Active Network, Inc. ("Active") and received approximately 3.5 million shares of Active convertible preferred stock, valued at \$33.3 million.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****GENERAL****Management Overview**

IAC operates more than 35 leading and diversified Internet businesses across 40 countries... our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. IAC includes the businesses comprising its Media & Advertising segment; its Match and ServiceMagic segments; the businesses comprising its Emerging Businesses segment; and certain investments in unconsolidated affiliates.

All references to "IAC," the "Company," "we," "our" or "us" in this report are to IAC/InterActiveCorp.

For a more detailed presentation of the Company's operating businesses, see the Company's annual report on Form 10-K for the year ended December 31, 2008, as amended.

**Results of Operations for the three months ended March 31, 2009 compared to the three months ended March 31, 2008**

Set forth below are the contributions made by our various segments and corporate operations to consolidated revenue, operating income (loss) and Operating Income Before Amortization (as defined in IAC's Principles of Financial Reporting) for the three months ended March 31, 2009 and 2008 (Dollars in thousands).

|                           | <b>Three Months Ended March 31,</b> |               |                   |
|---------------------------|-------------------------------------|---------------|-------------------|
|                           | <b>2009</b>                         | <b>Growth</b> | <b>2008</b>       |
| <b>Revenue:</b>           |                                     |               |                   |
| Media & Advertising       | \$ 167,620                          | (22)%         | \$ 215,538        |
| Match                     | 90,060                              | (1)%          | 90,536            |
| ServiceMagic              | 31,353                              | 8%            | 28,948            |
| Emerging Businesses       | 44,022                              | 1%            | 43,763            |
| Inter-segment elimination | (1,045)                             | 87%           | (8,129)           |
| <b>Total</b>              | <b>\$ 332,010</b>                   | <b>(10)%</b>  | <b>\$ 370,656</b> |

|                                 | <b>Three Months Ended March 31,</b> |               |                   |
|---------------------------------|-------------------------------------|---------------|-------------------|
|                                 | <b>2009</b>                         | <b>Growth</b> | <b>2008</b>       |
| <b>Operating Income (Loss):</b> |                                     |               |                   |
| Media & Advertising             | \$ 1,088                            | (97)%         | \$ 31,299         |
| Match                           | 9,742                               | 37%           | 7,136             |
| ServiceMagic                    | 2,003                               | (64)%         | 5,610             |
| Emerging Businesses             | (12,700)                            | (36)%         | (9,308)           |
| Corporate                       | (33,257)                            | 27%           | (45,845)          |
| <b>Total</b>                    | <b>\$(33,124)</b>                   | <b>(198)%</b> | <b>\$(11,108)</b> |

|  | Three Months Ended March 31, |           |                  |
|--|------------------------------|-----------|------------------|
|  | 2009                         | Growth    | 2008             |
| <b>Operating Income Before Amortization:</b> |                              |           |                  |
| Media & Advertising                          | \$ 10,134                    | (73)%     | \$ 37,529        |
| Match  | 9,941                        | (2)%      | 10,139           |
| ServiceMagic                                 | 2,801                        | (54)%     | 6,149            |
| Emerging Businesses                          | (11,056)                     | (41)%     | (7,825)          |
| Corporate                                    | (14,988)                     | 45%       | (27,356)         |
| <b>Total</b>                                 | <b>\$ (3,168)</b>            | <b>NM</b> | <b>\$ 18,636</b> |

Refer to Note 6 to the consolidated financial statements for reconciliations by segment of Operating Income Before Amortization to Operating Income (Loss).

## Consolidated Results

### Revenue

Revenue in 2009 decreased \$38.6 million from 2008 primarily as a result of a decrease of \$47.9 million from Media & Advertising, partially offset by an increase of \$2.4 million from ServiceMagic. The decrease from Media & Advertising was driven by a sharp decline in network revenue, resulting from the discontinuation of relationships with certain partners that took place during 2008 in conjunction with the renewed Google agreement, and fewer queries across proprietary properties, particularly at Fun Web Products and Ask.com. Partially offsetting these declines is the continued growth in partners and queries at the Ask toolbar business and the favorable impact from the acquisition of Lexico, which includes Dictionary.com and Thesaurus.com, on July 3, 2008. The increase in revenue at ServiceMagic reflects a more active service provider network and a 13% increase in service requests driven by increased marketing efforts.

### Cost of revenue

|                                  | Three Months Ended March 31, |             |           |
|----------------------------------|------------------------------|-------------|-----------|
|                                  | 2009                         | %<br>Change | 2008      |
|                                  | (Dollars in thousands)       |             |           |
| Cost of revenue                  | \$123,609                    | (10)%       | \$137,835 |
| As a percentage of total revenue | 37%                          | 4 bp        | 37%       |

bp = basis points

Cost of revenue consists primarily of traffic acquisition costs, compensation and other employee-related costs (including stock-based compensation) for personnel engaged in data center functions, the cost of products sold and shipping and handling costs. Traffic acquisition costs consist of revenue share payments to partners that have distributed toolbars and/or integrated paid listings into their websites and similar arrangements with third parties who direct traffic to our websites.

Cost of revenue in 2009 decreased \$14.2 million from 2008 primarily due to decreases of \$15.1 million from Media & Advertising and \$4.3 million from Match, partially offset by increases of \$3.6 million from ServiceMagic. The decrease in cost of revenue was primarily due to decreases of \$18.6 million and \$4.3 million in traffic acquisition costs from Media & Advertising and Match, respectively. Overall traffic acquisition costs from Media & Advertising during the quarter decreased as a direct result of a decrease in network revenue, partially offset by growth in distribution revenue included as a component of proprietary revenue at IAC Search & Media. The decrease in traffic

acquisition costs from Match was due primarily to improved economics from agreements with certain domestic distribution partners. Partially offsetting these decreases was an increase in traffic acquisition costs from ServiceMagic as growth in service requests from paid channels outpaced growth in free requests.

***Selling and marketing expense***

|                                  | Three Months Ended March 31, |             |           |
|----------------------------------|------------------------------|-------------|-----------|
|                                  | 2009                         | %<br>Change | 2008      |
|                                  | (Dollars in thousands)       |             |           |
| Selling and marketing expense    | \$122,213                    | 7%          | \$113,766 |
| As a percentage of total revenue | 37%                          | 612 bp      | 31%       |

Selling and marketing expense consists primarily of advertising and promotional expenditures and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in customer service and sales functions. Advertising and promotional expenditures include online marketing, including fees paid to search engines, and offline marketing, including television, radio and print advertising.

Selling and marketing expense in 2009 increased \$8.4 million from 2008 primarily due to increases of \$5.4 million from Media & Advertising, \$2.1 million from Emerging Businesses and \$1.0 million from ServiceMagic. The increase in selling and marketing expense from Media & Advertising is primarily due to an increase of \$6.7 million in advertising and promotional expenditures, including those associated with the NASCAR partnership, partially offset by a decrease of \$1.0 million in compensation and other employee-related costs. Selling and marketing expense from Emerging Businesses increased primarily due to increases of \$0.9 million and \$0.7 million in advertising and promotional expenditures and compensation and other employee-related costs, respectively. Also contributing to the increase in selling and marketing expense is an increase of \$0.9 million in compensation and other employee-related costs from ServiceMagic primarily related to the expansion of its sales force.

***General and administrative expense***

|                                    | Three Months Ended<br>March 31, |             |          |
|------------------------------------|---------------------------------|-------------|----------|
|                                    | 2009                            | %<br>Change | 2008     |
|                                    | (Dollars in thousands)          |             |          |
| General and administrative expense | \$73,634                        | (9)%        | \$80,594 |
| As a percentage of total revenue   | 22%                             | 44 bp       | 22%      |

General and administrative expense consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in finance, legal, tax, human resources and executive management functions, facilities costs and fees for professional services.

General and administrative expense in 2009 decreased \$7.0 million from 2008 primarily due to a decrease of \$11.4 million from corporate, partially offset by an increase of \$3.1 million from Match and \$1.3 million from ServiceMagic. The decrease from corporate is principally due to the inclusion in the prior year period of \$8.6 million in expenses related to the spin-off of HSN, Inc. ("HSNi"), Interval Leisure Group, Inc. ("ILG"), Ticketmaster Entertainment, Inc. ("Ticketmaster") and Tree.com, Inc. ("Tree.com") (the "Spin-Off") as well as a decrease in non-Spin-Off related professional fees. General and administrative expense from Match increased primarily due to \$3.3 million in expenses in the current year period associated with the pending sale of Match Europe to Meetic. The ServiceMagic

increase in general and administrative expense was primarily due to an increase of \$0.6 million in compensation and other employee-related costs.

**Product development expense**

|                                  | Three Months Ended<br>March 31, |         |          |
|----------------------------------|---------------------------------|---------|----------|
|                                  | 2009                            | Change  | 2008     |
|                                  | %                               |         |          |
|                                  | (Dollars in thousands)          |         |          |
| Product development expense      | \$18,088                        | (16)%   | \$21,452 |
| As a percentage of total revenue | 5%                              | (34) bp | 6%       |

Product development expense consists primarily of compensation and other employee-related costs (including stock-based compensation) that are not capitalized for personnel engaged in the design, development, testing and enhancement of technology.

Product development expense in 2009 decreased \$3.4 million from 2008 primarily due to a decrease of \$3.1 million in compensation and other employee-related costs from Media & Advertising which is due in part to a 6% decrease in average headcount at IAC Search & Media.

**Depreciation**

|                                  | Three Months Ended March 31, |        |          |
|----------------------------------|------------------------------|--------|----------|
|                                  | 2009                         | Change | 2008     |
|                                  | %                            |        |          |
|                                  | (Dollars in thousands)       |        |          |
| Depreciation                     | \$16,214                     | (6)%   | \$17,259 |
| As a percentage of total revenue | 5%                           | 23 bp  | 5%       |

Depreciation in 2009 decreased \$1.0 million from 2008 primarily due to certain fixed assets becoming fully depreciated during the period, partially offset by the incremental depreciation associated with capital expenditures made during 2009 and 2008.

**Operating Income Before Amortization**

|                                      | Three Months Ended March 31, |        |          |
|--------------------------------------|------------------------------|--------|----------|
|                                      | 2009                         | Change | 2008     |
|                                      | %                            |        |          |
|                                      | (Dollars in thousands)       |        |          |
| Operating Income Before Amortization | \$(3,168)                    | NM     | \$18,636 |
| As a percentage of total revenue     | (1)%                         | NM     | 5%       |

Operating Income Before Amortization in 2009 decreased \$21.8 million from 2008 primarily due to decreases of \$27.4 million, \$3.3 million and \$3.2 million from Media & Advertising, ServiceMagic and Emerging Businesses, respectively. These decreases in Operating Income Before Amortization were partially offset by a decrease of \$12.4 million in corporate expenses due in part to the inclusion in the prior year period of \$8.6 million in expenses related to the Spin-Off.

The overall decrease in Operating Income Before Amortization reflects lower revenue from Media & Advertising, a shift in mix to lower revenue generating service requests and increased traffic acquisition costs from ServiceMagic, and increased operating expenses from Emerging Businesses primarily related to The Daily Beast and InstantAction.com.

**Operating loss**

|                                  | Three Months Ended March 31, |             |            |
|----------------------------------|------------------------------|-------------|------------|
|                                  | 2009                         | %<br>Change | 2008       |
|                                  | (Dollars in thousands)       |             |            |
| Operating loss                   | \$(33,124)                   | (198)%      | \$(11,108) |
| As a percentage of total revenue | (10)%                        | (698)       | (3)%       |

bp

Operating loss in 2009 increased \$22.0 million from 2008 primarily due to the \$21.8 million decrease in Operating Income Before Amortization described above and a goodwill impairment charge of \$1.1 million, partially offset by decreases of \$0.5 million in amortization of non-cash marketing and \$0.3 million in non-cash compensation expense. The amortization of non-cash marketing referred to in this report consists of non-cash advertising secured from Universal Television as part of the transaction pursuant to which Vivendi Universal Entertainment, LLLP ("VUE") was created, and the subsequent transaction by which IAC sold its partnership interests in VUE.

At March 31, 2009, there was \$141.5 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is expected to be recognized over a weighted average period of approximately 2.7 years.

**Other income (expense)**

|  | Three Months Ended March 31, |             |          |
|--|------------------------------|-------------|----------|
|  | 2009                         | %<br>Change | 2008     |
|  | (Dollars in thousands)       |             |          |
| Other income (expense):                                |                              |             |          |
| Interest income  | \$3,728                      | (54)%       | \$8,073  |
| Interest expense                                       | (1,464)                      | 88%         | (11,978) |
| Equity in (losses) income of unconsolidated affiliates | (1,847)                      | NM          | 5,779    |
| Other income   | 146                          | (99)%       | 9,817    |

Interest income in 2009 decreased \$4.3 million from 2008 primarily due to the impact of lower average interest rates and from a reallocation of investments during the second half of 2008 into lower yielding treasury and government agency funds. Interest expense in 2009 decreased \$10.5 million from 2008 as the amount of outstanding debt decreased year over year due to the extinguishment of \$734.2 million of the Company's 7% Senior Notes due 2013 (the "Senior Notes") in connection with the Spin-Off. The remaining outstanding principal of the Senior Notes at March 31, 2009 is \$15.8 million.

Equity in (losses) income of unconsolidated affiliates in 2009 decreased \$7.6 million from 2008 primarily due to the inclusion in the prior year period of \$7.2 million related to the equity in earnings of our former investment in Jupiter Shop Channel Co., Ltd., a Japanese TV shopping company.

Other income in 2009 decreased \$9.7 million from 2008 primarily due to gains of \$6.6 million included in the prior year period related to the increase in the value of the derivative assets received in connection with the 2007 sale of Home Shopping Europe GmbH & Co. KG, and its affiliated station HSE24, and created in connection with the Expedia spin-off.

**Income tax provision**

In 2009, the Company recorded an income tax benefit for continuing operations of \$2.7 million on a pre-tax loss of \$32.6 million, which represents an effective tax rate of 8%. This rate is lower than the federal statutory rate of 35% due principally to an increase in the valuation allowance on deferred tax assets related to losses from equity investments, non-deductible transaction costs related to the pending sale of Match Europe to Meetic, interest on tax contingencies and state taxes, partially offset by foreign income taxed at lower rates. In 2008, the Company recorded an income tax provision for continuing

operations of \$4.0 million on pre-tax income of \$0.6 million. The effective tax rate was higher than the statutory rate of 35% due principally to non-deductible costs related to the Spin-Off, interest on tax contingencies, a write-off of a deferred tax asset related to executive compensation and state taxes, partially offset by foreign income taxed at lower rates.

At March 31, 2009 and December 31, 2008, the Company had unrecognized tax benefits of \$369.4 million and \$372.6 million, respectively. Unrecognized tax benefits for the three months ended March 31, 2009 decreased by \$3.2 million due to the effective settlement of certain prior year tax positions with the Internal Revenue Service ("IRS") relating to the reversal of deductible temporary differences. The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in the income tax benefit for continuing operations for the three months ended March 31, 2009 is a \$2.6 million expense, net of related deferred taxes of \$1.7 million for interest on unrecognized tax benefits. At March 31, 2009 and December 31, 2008, the Company has accrued \$53.5 million and \$49.7 million, respectively, for the payment of interest. There are no material accruals for penalties.

The Company is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by the Company are recorded in the period they become known.

The IRS is currently examining the Company's tax returns for the years ended December 31, 2001 through 2003. The statute of limitations for these years has been extended to December 31, 2009. Various state, local and foreign jurisdictions are currently under examination, the most significant of which are California, Florida, New York and New York City, for various tax years beginning with December 31, 2001. These examinations are expected to be completed by 2010. In early 2009, the IRS commenced an audit of the Company's tax returns for the years ended December 31, 2004 through 2006. The statute of limitations for these years has been extended and this examination is expected to be completed in 2011. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by \$13.0 million within twelve months of the current reporting date primarily due to the reversal of deductible temporary differences which will primarily result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits, while potentially significant, cannot be made.

#### *Discontinued operations*

Discontinued operations in the accompanying unaudited consolidated statement of operations include HSNi, ILG, Ticketmaster, Tree.com and Entertainment Publications, Inc. ("EPI") through March 31, 2008, and Quiz TV Limited and iBuy for all periods presented. Results from these discontinued operations, net of tax, in 2009 and 2008 were income of \$1.2 million and \$55.9 million, respectively. The 2009 amount is principally due to the income of iBuy. The 2008 amount is principally due to the income of Ticketmaster, ILG and HSNi, partially offset by losses of EPI and Tree.com.



***Recoverability of Goodwill and Indefinite-Lived Intangible Assets***

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), we review the carrying value of goodwill and indefinite lived intangible assets on an annual basis as of October 1 or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. We determine the fair value of a reporting unit based upon an evaluation of its expected discounted cash flows. This discounted cash flow analysis utilizes an evaluation of historical and forecasted operating results. The determination of discounted cash flows is based upon forecasted operating results that may not occur.

Certain reporting units are currently operating in dynamic industry segments. These include IAC Search & Media and InstantAction.com. If actual operating results of these businesses vary significantly from anticipated results, the future impairments of goodwill and/or other intangible assets could occur. To illustrate the magnitude of potential impairment charges relative to future changes in estimated fair value, had the estimated fair value of each of these reporting units been hypothetically lower by 10% as of October 1, 2008, the aggregate book value of goodwill would have exceeded fair value by approximately \$140 million at IAC Search & Media and \$4 million at InstantAction.com. Had the estimated fair values of each of these reporting units been hypothetically lower by 20% as of October 1, 2008, the book value of goodwill would have exceeded fair value by approximately \$330 million at IAC Search & Media and \$8 million at InstantAction.com.

## Segment Results

In addition to the discussion of consolidated results above, the following is a discussion of the results of each segment.

### *Media & Advertising*

Our Media & Advertising segment consists primarily of our search business, which includes Ask.com and other destination search websites through which we provide search and related advertising services, and toolbars and applications through which we promote and distribute these services, Citysearch, a leading online local city guide, and Evite, an online social planning website.

Revenue decreased 22% to \$167.6 million, primarily due to a sharp decline in network revenue, resulting from the discontinuation of relationships with certain partners that took place during 2008 in conjunction with the renewed Google agreement. The full impact of this discontinuation will be fully anniversaried beginning in the second quarter of 2009. Revenue declines also reflect fewer queries across proprietary properties, particularly at Fun Web Products and Ask.com, as well as a decrease in revenue per query at Ask.com reflecting fewer clicks per visit as users find what they are searching for sooner due to the relaunched site's improved user experience. Offsetting these decreases was the continued growth in partners and queries at the Ask toolbar business and \$4.6 million of revenue in 2009 related to the acquisition of Lexico on July 3, 2008, which includes Dictionary.com and Thesaurus.com. Citysearch revenue declined reflecting a difficult display advertising environment.

Operating Income Before Amortization decreased 73% to \$10.1 million, primarily due to the lower revenue noted above and an increase of \$5.4 million in selling and marketing expense, partially offset by decreases of \$18.6 million in traffic acquisition costs and \$3.5 million in product development expense. Contributing to the increase in selling and marketing expense is an increase of \$6.7 million in advertising and promotional expenditures, including those associated with the NASCAR partnership, partially offset by a decrease of \$1.0 million in compensation and other employee-related costs. Overall traffic acquisition costs during the year decreased as a direct result of a decrease in network revenue, partially offset by growth in distribution revenue included as a component of proprietary revenue at IAC Search & Media. As a percentage of revenue, traffic acquisition costs associated with network revenue generated from integrated paid listings are lower than traffic acquisition costs associated with distribution revenue generated from partners who redirect traffic to the Ask.com landing page. The decrease in product development expense is primarily due to a decrease of \$3.1 million in compensation and other employee-related costs, due in part to a 6% reduction in average headcount at IAC Search & Media.

Operating income decreased 97% to \$1.1 million, primarily due to the decrease in Operating Income Before Amortization described above and increases of \$2.3 million in amortization of non-cash marketing and \$0.4 million in amortization of intangibles related to recent acquisitions.

### *Match*

Revenue declined slightly to \$90.1 million, reflecting a 15% decrease in international revenue per subscriber, due primarily to the unfavorable impact of foreign exchange rates. Total revenue grew 6% and international revenue grew excluding the impact of foreign exchange rates. International subscribers grew 1% during the quarter driven by several markets, most notably the United Kingdom and Japan, partially offset by declines in Spain and France. The decrease in international revenue was offset by a 9% growth in U.S. subscribers.

Operating Income Before Amortization decreased 2% to \$9.9 million primarily due to an increase in general and administrative expense, partially offset by a decrease in cost of revenue. The increase in general and administrative expense is due primarily to the inclusion in the current year period of \$3.3 million in expenses associated with the pending sale of Match Europe to Meetic. On February 19, 2009, Match.com and Meetic, a leading online dating company based in France, entered into an agreement for Meetic to acquire Match.com's European operations. As consideration Match.com will

receive a 27% stake in Meetic, plus a €5.0 million promissory note. Contributing favorably to the reduction in cost of revenue is a decrease of \$4.3 million in traffic acquisition costs due to more favorable economic terms under agreements with certain domestic distribution partners.

Operating income increased 37% to \$9.7 million in 2009, despite the decrease in Operating Income Before Amortization discussed above, primarily due to a decrease of \$2.8 million in amortization of non-cash marketing.

### ***ServiceMagic***

Revenue grew 8% to \$31.4 million, benefiting from a more active service provider network and a 13% increase in service requests driven by increased marketing efforts. During 2009, ServiceMagic experienced a 12% increase in the number of times service requests are accepted by a service professional. A service request can be transmitted to and accepted by more than one service professional.

Operating Income Before Amortization decreased 54% to \$2.8 million, despite the increase in revenue noted above, reflecting a shift in the mix of service requests from higher margin discretionary home repair and improvement requests to lower margin requests, due primarily to the general economic slowdown. During 2009, ServiceMagic experienced increases of \$3.6 million in cost of revenue, \$1.3 million in general and administrative expense and \$1.0 million in selling and marketing expense. The increase in cost of revenue is primarily driven by increased traffic acquisition costs as growth in service requests from paid channels outpaced growth in free requests. Contributing to the increase in general and administrative expense is an increase of \$0.6 million in compensation and other employee-related costs. Selling and marketing expense reflects increased compensation and other employee-related costs due in part to an 11% increase in headcount as ServiceMagic expands its sales force.

Operating income decreased 64% to \$2.0 million, primarily due to the decrease in Operating Income Before Amortization discussed above and an increase of \$0.3 million in amortization of intangibles.

### ***Emerging Businesses***

Our Emerging Businesses segment consists primarily of Shoebuy and Pronto, as well as Gifts.com, Connected Ventures, InstantAction.com, Vimeo, VeryShortList.com, RushmoreDrive.com, Life123.com and The Daily Beast, among other early stage businesses that provide online content and/or services.

Revenue grew 1% to \$44.0 million reflecting growth at Pronto and Shoebuy. The increase in revenue at Pronto is primarily due to continued improvements in customer acquisition and monetization. Partially offsetting this growth is lower revenue from ReserveAmerica in the current year period as a result of its sale to The Active Network, Inc. on January 31, 2009.

Operating Income Before Amortization loss increased by \$3.2 million to a loss of \$11.1 million. Losses increased due primarily to increased operating expenses associated with The Daily Beast and InstantAction.com, partially offset by profitability at Pronto.

Operating loss increased by \$3.4 million to \$12.7 million primarily due to the increased Operating Income Before Amortization loss discussed above and a goodwill impairment charge of \$1.1 million related to our gift card business, partially offset by decreases in amortization of intangibles and non-cash compensation expense of \$0.6 million and \$0.3 million, respectively.

### ***Corporate***

Operating Income Before Amortization loss decreased by \$12.4 million to a loss of \$15.0 million primarily due to the inclusion in the prior year period of \$8.6 million in expenses related to the Spin-Off, as well as decreases in the current year period of \$0.5 million in non-Spin-Off related professional fees, and \$0.5 million in depreciation expense.

Operating loss decreased \$12.6 million to a loss of \$33.3 million reflecting the decrease in Operating Income Before Amortization loss discussed above and a decrease in non-cash compensation expense.

**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

As of March 31, 2009, the Company had \$1.8 billion of cash and cash equivalents, \$216.5 million of marketable securities and \$95.8 million in long-term debt. Long-term debt consists of \$80.0 million in Liberty Bonds due September 1, 2035 and \$15.8 million in Senior Notes.

During the three months ended March 31, 2009 and 2008, IAC purchased 2.4 million and 3.0 million shares of IAC common stock for aggregate consideration, on a trade date basis, of \$36.6 million and \$145.6 million, respectively. IAC also repurchased an additional 0.6 million shares from April 1, 2009 through April 24, 2009 for aggregate consideration of \$9.4 million. At April 24, 2009, IAC had approximately 19.4 million shares remaining in its share repurchase authorization. IAC may purchase shares over an indefinite period of time, depending on those factors IAC management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

Net cash provided by operating activities attributable to continuing operations was \$48.7 million and \$36.6 million in 2009 and 2008, respectively. The increase of \$12.1 million in net cash provided by operating activities attributable to continuing operations is due principally to the payment of 2007 discretionary cash bonuses in the first quarter of 2008 while 2008 discretionary cash bonuses were paid in the fourth quarter of 2008.

Net cash used in investing activities attributable to continuing operations in 2009 of \$121.4 million includes \$91.6 million related to the net purchases, sales and maturities of marketable securities, acquisitions, net of cash acquired, of \$11.5 million and capital expenditures of \$8.6 million. Net cash provided by investing activities attributable to continuing operations in 2008 of \$76.5 million includes the net proceeds of \$145.1 million related to the sales, maturities and purchases of marketable securities, partially offset by purchases of long-term investments of \$48.4 million, capital expenditures of \$15.8 million, and acquisitions, net of cash acquired, of \$4.7 million. The purchases of long-term investments in 2008 related primarily to the Company's equity investment in The HealthCentral Network.

Net cash provided by financing activities attributable to continuing operations in 2009 of \$120.7 million includes the proceeds related to the issuance of common stock, net of withholding taxes, of \$148.8 million, partially offset by the purchase of treasury stock of \$29.2 million. Included in the proceeds related to the issuance of common stock are aggregate proceeds of \$150.9 million from the exercise of warrants to acquire 11.5 million shares of IAC common stock that were due to expire on February 4, 2009. The strike price of the warrants was \$13.09 per share. Net cash used in financing activities attributable to continuing operations in 2008 of \$151.1 million includes the purchase of treasury stock of \$145.6 million and the issuance of common stock, net of withholding taxes, of \$6.0 million.

Net cash used in discontinued operations was \$0.5 million and \$325.9 million in 2009 and 2008, respectively. Net cash used in discontinued operations in 2008 relates primarily to the operations of Ticketmaster, HSNi, ILG and Tree.com. The Company does not expect future cash flows associated with existing discontinued operations to be material.

IAC anticipates that it will need to make capital and other expenditures in connection with the development and expansion of its overall operations. The Company may make a number of acquisitions which could result in the reduction of its cash balance or the incurrence of debt. IAC expects that 2009 capital expenditures will be lower than 2008.

IAC believes that its cash on hand along with its anticipated operating cash flows in 2009 and its access to capital markets are sufficient to fund its operating needs, capital, investing and other commitments and contingencies for the foreseeable future.

**CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS**

| Contractual Obligations (a)        | Total     | Payments Due by Period |           |           |                      |
|------------------------------------|-----------|------------------------|-----------|-----------|----------------------|
|                                    |           | Less Than<br>1 Year    | 1-3 Years | 3-5 Years | More Than<br>5 Years |
|                                    |           | (In Thousands)         |           |           |                      |
| Long-term obligations (b)          | \$206,280 | \$ 5,109               | \$ 10,218 | \$ 24,953 | \$ 166,000           |
| Purchase obligations (c)           | 275       | 157                    | 118       |           |                      |
| Operating leases                   | 292,107   | 20,295                 | 35,084    | 26,248    | 210,480              |
| Total contractual cash obligations | \$498,662 | \$ 25,561              | \$ 45,420 | \$ 51,201 | \$ 376,480           |

- 
- (a) At March 31, 2009, the Company has recorded \$422.9 million of unrecognized tax benefits which includes accrued interest of \$53.5 million. This amount includes \$247.3 million for unrecognized tax benefits and related interest that could result in future net cash payments to taxing authorities. The Company cannot make a reasonably reliable estimate of the expected period of cash settlement of these items.
- (b) Represents contractual amounts due, including interest.
- (c) The purchase obligations primarily relate to minimum payments due under a telecommunications contract related to data transmission lines.

## IAC'S PRINCIPLES OF FINANCIAL REPORTING

IAC reports Operating Income Before Amortization as a supplemental measure to generally accepted accounting principles ("GAAP"). This measure is one of the primary metrics by which we evaluate the performance of our businesses, on which our internal budgets are based and by which management is compensated. We believe that investors should have access to, and we are obligated to provide, the same set of tools that we use in analyzing our results. This non-GAAP measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. We provide and encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measure which we discuss below.

### Definition of IAC's Non-GAAP Measure

*Operating Income Before Amortization* is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of non-cash marketing, (3) amortization and impairment of intangibles, (4) goodwill impairment, (5) pro forma adjustments for significant acquisitions, and (6) one-time items. We believe this measure is useful to investors because it represents the consolidated operating results from IAC's segments, taking into account depreciation, which we believe is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to IAC's statement of operations of certain expenses, including non-cash compensation, non-cash marketing, and acquisition-related accounting. IAC endeavors to compensate for the limitations of the non-GAAP measure presented by providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measure.

### Pro Forma Results

We will only present Operating Income Before Amortization on a pro forma basis if we view a particular transaction as significant in size or transformational in nature. For the periods presented in this report, there are no transactions that we have included on a pro forma basis.

### One-Time Items

Operating Income Before Amortization is presented before one-time items, if applicable. These items are truly one-time in nature and non-recurring, infrequent or unusual, and have not occurred in the past two years or are not expected to recur in the next two years, in accordance with SEC rules. For the periods presented in this report, there are no one-time items.

### Non-Cash Expenses That Are Excluded From IAC's Non-GAAP Measure

*Non-cash compensation* expense consists principally of expense associated with the grants, including unvested grants assumed in acquisitions, of restricted stock, restricted stock units and stock options. These expenses are not paid in cash, and we include the related shares in our fully diluted shares outstanding which, for restricted stock units and stock options, are included on a treasury method basis. Upon vesting of restricted stock and restricted stock units and the exercise of certain stock options, the awards are settled, at the Company's discretion, on a net basis, with the Company remitting the required tax withholding amount from its current funds.

*Amortization of non-cash marketing* consists of non-cash advertising secured from Universal Television as part of the transaction pursuant to which VUE was created, and the subsequent transaction by which IAC sold its partnership interests in VUE (collectively referred to as "NBC Universal Advertising"). The NBC Universal Advertising is available for television advertising on

various NBC Universal network and cable channels without any cash cost. At March 31, 2009, there was \$13.6 million of NBC Universal Advertising credits available for use.

The NBC Universal Advertising is excluded from Operating Income Before Amortization because it is non-cash and generally is incremental to the advertising the Company otherwise secures as a result of its ordinary cost/benefit marketing planning process. Accordingly, the Company's aggregate level of advertising, and the increased concentration of that advertising on NBC Universal network and cable channels, does not reflect what our advertising effort would otherwise be without these credits, which will expire on December 31, 2009 if not exhausted before then. As a result, management believes that treating the NBC Universal Advertising as an expense does not appropriately reflect its true cost/benefit relationship, nor does it best reflect the Company's long-term level of advertising expenditures. Nonetheless, while the benefits directly attributable to television advertising are always difficult to determine, and especially so with respect to the NBC Universal Advertising due to its incrementality and heavy concentration, it is likely that the Company does derive benefits from it, though management believes such benefits are generally less than those received through its regular advertising for the reasons stated above. Operating Income Before Amortization therefore has the limitation of including those benefits while excluding the associated expense.

*Amortization of intangibles* is a non-cash expense relating primarily to acquisitions. At the time of an acquisition, the intangible assets of the acquired company, such as technology and supplier contracts, are valued and amortized over their estimated lives. While it is likely that we will have significant intangible amortization expense as we continue to acquire companies, we believe that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they were part of transaction costs.

#### **RECONCILIATION OF OPERATING INCOME BEFORE AMORTIZATION**

For a reconciliation of Operating Income Before Amortization to operating income (loss) by business and to net (loss) earnings attributable to IAC shareholders in total for the three months ended March 31, 2009 and 2008, see Note 6 to the consolidated financial statements.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

**Interest Rate Risk**

The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's investment portfolio and long-term debt.

***Investment Portfolio***

The Company invests its excess cash in certain cash equivalents and marketable securities, which consist primarily of money market instruments and short-to-intermediate-term debt securities issued by the U.S. government, U.S. governmental agencies and municipalities, and foreign sovereignties and investment grade corporate issuers. The Company employs a methodology that considers available evidence in evaluating potential impairment of its investments. Investments are considered to be impaired when a decline in fair value below the amortized cost basis is determined to be other-than-temporary. If a decline in fair value is determined to be other-than-temporary, an impairment loss is recorded and a new cost basis in the investment is established.

Based on the Company's total debt investment securities as of March 31, 2009, a 100 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the debt investment securities by \$1.7 million. Such potential increase or decrease in fair value is based on certain simplifying assumptions, including a constant level and rate of debt securities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period. Conversely, since almost all of the Company's cash balance of approximately \$1.8 billion is invested in variable rate interest earning assets, the Company would also earn more (less) interest income due to such an increase (decrease) in interest rates.

***Long-term Debt***

At March 31, 2009, the Company's outstanding debt approximated \$95.8 million, all of which pays interest at fixed rates. If market rates decline, the Company runs the risk that the related required payments on the fixed rate debt will exceed those based on market rates. A 100 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the fixed-rate debt by \$10.1 million. Such potential increase or decrease in fair value is based on certain simplifying assumptions, including a constant level and rate of fixed-rate debt for all maturities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

**Equity Price Risk**

The Company has investments in equity securities of publicly traded companies. These investments, as of March 31, 2009, were considered available-for-sale marketable equity securities and are included in "Long-term investments" with the unrealized gains or losses deferred as a component of "Accumulated other comprehensive (loss) income" in the accompanying consolidated balance sheet. These available-for-sale marketable equity securities are subject to significant fluctuations in fair value due to the volatility of the stock market. During the three months ended March 31, 2009, the Company did not record any other-than-temporary impairment charges. It is not customary for the Company to make significant investments in equity securities as part of its marketable securities investment strategy.

As part of the consideration for the sale of HSE on June 19, 2007, IAC received from ARO approximately 5.5 million shares of ARO stock (the "ARO Shares") plus additional consideration in the form of a contingent value right ("CVR"). The CVR has value of up to €54 million within three years from the date of sale. ARO shares are listed on the German stock exchange (XETRA: ARO) and as a result, IAC is exposed to changes in ARO's stock price. The ultimate value of the CVR is dependent,



in part, upon the average closing value of the ARO Shares for the 90 days preceding June 19, 2010 (the "Average Value"). To the extent that the Average Value is equal to or less than €141 million, IAC will receive a cash payment equal to €54 million. To the extent that the Average Value is equal to or greater than €195 million, IAC will receive no additional consideration. To the extent that the Average Value is between €141 million and €195 million, IAC will receive a pro rata portion of the €54 million. If the closing value of an ARO share equals or exceeds €35.68 per share for at least 30 consecutive trading days during the three year period from June 20, 2007 through June 19, 2010, the CVR expires without any payment being made. The CVR is accounted for as a derivative asset and maintained at fair value each reporting period with any changes in fair value recognized in current earnings as a component of other income (expense) in the consolidated statement of operations each period. During the three months ended March 31, 2009, the Company did not recognize any gain or loss related to the change in the fair value of the CVR. The ARO stock is an available-for-sale marketable equity security that is accounted for in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The carrying value of the ARO Shares is €9.1 million or \$12.1 million at March 31, 2009.

### **Foreign Currency Exchange Risk**

The Company conducts business in certain foreign markets, primarily in the European Union. The Company's primary exposure to foreign currency risk relates to investments in foreign subsidiaries that transact business in a functional currency other than the U.S. Dollar, primarily the Euro and British Pound Sterling. However, the exposure is mitigated since the Company has generally reinvested profits from international operations in order to grow the businesses. The statements of operations of the Company's international operations are translated into United States dollars at the average exchange rates in each applicable period. To the extent the United States dollar strengthens against foreign currencies, the translation of these foreign currency denominated transactions results in reduced revenues and operating income. Similarly, the Company's revenue and operating income will increase for our international operations if the United States dollar weakens against foreign currencies. The Company is also exposed to foreign currency risk related to its assets and liabilities denominated in a currency other than the functional currency.

As the Company increases its operations in international markets it becomes increasingly exposed to potentially volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on the Company is often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause the Company to adjust its financing and operating strategies. Foreign exchange gains and losses were not material to the Company's earnings in 2009 and 2008. As currency exchange rates change, translation of the income statements of the Company's international businesses into U.S. dollars affects year-over-year comparability of operating results. Historically, the Company has not hedged foreign currency translation risks because cash flows from international operations were generally reinvested locally. However, the Company periodically reviews its strategy for hedging foreign currency translation risks. The Company's objective in managing its foreign currency risk is to minimize its potential exposure to the changes that exchange rates might have on its earnings, cash flows and financial position.

**Item 4. Controls and Procedures**

The Company monitors and evaluates on an ongoing basis its disclosure controls and internal control over financial reporting in order to improve their overall effectiveness. In the course of this evaluation, the Company modifies and refines its internal processes as conditions warrant.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, including our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined by Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective in providing reasonable assurance that information we are required to disclose in our filings with the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and Forms, and include controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d) of the Exchange Act, the Company, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, also evaluated whether any changes occurred to the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, such control. Based on that evaluation, the Company concluded that there has been no such change during the period covered by this report.

**PART II  
OTHER INFORMATION**

**Item 1A. Risk Factors**

**Cautionary Statement Regarding Forward-Looking Information**

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The use of words such as "anticipates," "estimates," "expects," "intends," "plans" and "believes," among others, generally identify forward-looking statements. These forward-looking statements include, among others, statements relating to: IAC's future financial performance, IAC's business prospects and strategy, anticipated trends and prospects in the industries in which IAC's businesses operate and other similar matters. These forward-looking statements are based on management's current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, among others: changes in senior management at IAC and/or its businesses, changes in our relationship with Google, continuing adverse economic conditions, or the worsening thereof, in any of the markets or industries in which IAC's businesses operate or generally, adverse trends in the online advertising industry or the advertising industry generally, our ability to convert visitors to our various websites into users and customers, our ability to offer new or alternative products and services in a cost-effective manner and consumer acceptance of these products and services, operational and financial risks relating to acquisitions, changes in industry standards and technology, our ability to expand successfully into international markets and regulatory changes. Certain of these and other risks and uncertainties are discussed in IAC's filings with the SEC, including in Part I, "Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2008, as amended. Other unknown or unpredictable factors that could also adversely affect IAC's business, financial condition and results of operations may arise from time to time. In light of these risks and uncertainties, the forward-looking statements discussed in this report may not prove to be accurate. Accordingly, you should not place undue reliance on these forward-looking statements, which only reflect the views of IAC management as of the date of this report. IAC does not undertake to update these forward-looking statements.

**Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2008, as amended, which could materially affect our business, financial condition or future results. The risks described in our annual report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales and Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

The following table sets forth purchases by the Company of its common stock during the quarter ended March 31, 2009:

| Period        | (a)<br>Total<br>Number of Shares<br>Purchased | (b)<br>Average<br>Price Paid<br>Per<br>Share(1) | (c)<br>Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs(2) | (d)<br>Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under Publicly<br>Announced<br>Plans or<br>Programs(3) |
|---------------|---|---|--|---|
| January 2009  |   |   |  | 22,419,246  |
| February 2009 |   |   |  | 22,419,246  |
| March 2009    | 2,442,150                                     | \$ 14.98  | 2,442,150  | 19,977,096  |
| Total         | 2,442,150                                     | \$ 14.98  | 2,442,150  | 19,977,096  |

(1) Reflects the weighted average price paid per share of IAC common stock.

(2) Reflects repurchases made pursuant to a repurchase authorization previously announced in October 2006.

(3) Represents the number of shares of common stock that remained available for repurchase (as adjusted to give effect to the reverse stock split effected after the close of trading on August 20, 2008) pursuant to a repurchase authorization previously announced in October 2006. IAC may purchase shares pursuant to this repurchase authorization over an indefinite period of time, depending on those factors IAC management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

**Item 5. Other Information**

The Company's 2009 Annual Meeting of Stockholders was advanced more than 30 calendar days from the date of its 2008 Annual Meeting of Stockholders and will be held on Monday, June 15, 2009, at 10:00 a.m. local time, at IAC's corporate headquarters, located at 555 West 18<sup>th</sup> Street, New York, New York 10011. A new deadline for the submission of stockholder proposals for inclusion in IAC's 2009 proxy statement has not been (and will not be) established because the deadline for the submission of such proposals disclosed in IAC's proxy statement (March 13, 2009), which assumed a later meeting date of August 1, 2009, has passed with the Company receiving no such proposals. The deadline for the submission of stockholder proposals without inclusion in IAC's 2009 proxy statement continues to be May 27, 2009.

**Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Description</b>   | <b>Location</b>   |
|-----------------------|--|---|
| 3.1                   | Restated Certificate of Incorporation of IAC/InterActiveCorp   | Exhibit 3.1 to the Registrant's Registration Statement on Form 8-A/A, filed on August 12, 2005. |
| 3.2                   | Certificate of Amendment of the Restated Certificate of Incorporation of IAC/InterActiveCorp   | Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 22, 2008.           |
| 3.3                   | Amended and Restated By-Laws of IAC/InterActiveCorp  | Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on July 2, 2008.              |
| 10.1                  | Terms of Employment dated February 18, 2009 among Gregory R. Blatt, IAC/InterActiveCorp and Match.com, Inc.(1)   |   |
| 10.2                  | Summary of Non-Employee Director Compensation Arrangements(1)  |   |
| 31.1                  | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act(1) |   |
| 31.2                  | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act(1) |   |
| 32.1                  | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act(2)  |   |
| 32.2                  | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act(2)  |   |

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(1) Filed herewith.

(2) Furnished herewith.

**SIGNATURES**

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

Dated: May 7, 2009

IAC/INTERACTIVECORP

By:           /s/ THOMAS J. MCINERNEY          

Thomas J. McInerney  
*Executive Vice President and  
Chief Financial Officer*

| <b>Signature</b>  | <b>Title</b>  | <b>Date</b> |
|---|---|-------------|
| <u>          /s/ THOMAS J. MCINERNEY          </u><br>Thomas J. McInerney | Executive Vice President and<br>Chief Financial Officer | May 7, 2009 |

QuickLinks

PART I. FINANCIAL STATEMENTS

IAC/INTERACTIVECORP AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET

IAC/INTERACTIVECORP AND SUBSIDIARIES CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

IAC/INTERACTIVECORP AND SUBSIDIARIES CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)

IAC/INTERACTIVECORP AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

IAC/INTERACTIVECORP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

IAC'S PRINCIPLES OF FINANCIAL REPORTING

RECONCILIATION OF OPERATING INCOME BEFORE AMORTIZATION

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II OTHER INFORMATION

Item 1A. Risk Factors

Item 2. Unregistered Sales and Equity Securities and Use of Proceeds

Item 5. Other Information

Item 6. Exhibits

SIGNATURES