IAC/INTERACTIVECORP
Form 10-Q
May 07, 2008

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As filed with the Securities and Exchange Commission on May 7, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2008

or

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

555 West 18th Street, New York, New York 10011
(Address of Registrant's principal executive offices)

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

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

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 filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller	Smaller reporting company o

reporting company)

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

As of April 25, 2008, the following shares of the Registrant's common stock were outstanding:

Common Stock, including 200,000 shares of restricted stock	253,181,447
Class B Common Stock	25,599,998
Total outstanding Common Stock	278,781,445

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of April 25, 2008 was $3,776,748,312. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant are assumed to be affiliates of the Registrant.

PART I FINANCIAL STATEMENTS

Item 1. ***Consolidated Financial Statements***

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2008	**2007**
		(Restated)
	(In thousands, except per share data)	
Product sales	$ 723,530	$ 706,506
Service revenue	878,819	783,625
Net revenue	1,602,349	1,490,131
Cost of sales product sales (exclusive of depreciation shown separately below)	464,408	436,655
Cost of sales service revenue (exclusive of depreciation shown separately below)	398,006	334,660
Gross profit	739,935	718,816
Selling and marketing expense	337,197	331,378
General and administrative expense	219,878	202,995
Other operating expense	33,913	30,415
Amortization of non-cash marketing	6,511	507
Amortization of intangibles	29,821	30,228
Depreciation	42,603	37,847
Operating income	70,012	85,446
Other income (expense):		
Interest income	10,491	19,291
Interest expense	(12,851)	(15,016)
Equity in income of unconsolidated affiliates	6,445	7,847
Other income	12,052	681
Total other income, net	16,137	12,803
Earnings from continuing operations before income taxes and minority interest	86,149	98,249
Income tax provision	(36,809)	(37,489)
Minority interest in losses (income) of consolidated subsidiaries	895	(113)
Earnings from continuing operations	50,235	60,647
Income from discontinued operations, net of tax	2,581	103
Net earnings available to common shareholders	$ 52,816	$ 60,750
Earnings per share from continuing operations:		
Basic earnings per share	$ 0.18	$ 0.21
Diluted earnings per share	$ 0.18	$ 0.20
Net earnings per share available to common shareholders:		

	Three Months Ended March 31,			
Basic earnings per share	$	0.19	$	0.21
Diluted earnings per share	$	0.18	$	0.20

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2008	December 31, 2007
	(unaudited)	(audited)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 1,234,050	$ 1,585,302
Restricted cash and cash equivalents	12,613	23,701
Marketable securities	169,307	326,788
Accounts receivable, net of allowance of $24,896 and $20,215, respectively	508,291	483,336
Loans held for sale, net	91,185	86,754
Inventories	351,411	331,970
Deferred income taxes	94,373	97,401
Prepaid and other current assets	349,091	352,177
Total current assets	2,810,321	3,287,429
Property and equipment, net	660,646	651,474
Goodwill	6,794,102	6,473,014
Intangible assets, net	1,521,971	1,404,897
Long-term investments	501,022	450,318
Other non-current assets	280,461	257,388
TOTAL ASSETS	$ 12,568,523	$ 12,524,520
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Current maturities of long-term obligations and short-term borrowings	$ 93,374	$ 111,857
Accounts payable, trade	307,790	279,749
Accounts payable, client accounts	500,547	413,070
Deferred revenue	199,472	171,650
Income taxes payable	5,039	20,521
Accrued expenses and other current liabilities	626,100	691,965
Total current liabilities	1,732,322	1,688,812
Long-term obligations, net of current maturities	850,005	834,566
Income taxes payable	265,987	266,488
Other long-term liabilities	177,352	171,725
Deferred income taxes	988,611	938,786
Minority interest	40,238	40,481
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Preferred stock $.01 par value; authorized 100,000,000 shares; 758 shares issued and outstanding		
Common stock $.001 par value; authorized 1,600,000,000 shares; issued 417,950,312 and 417,077,599 shares, respectively, and outstanding 253,135,548 and 258,262,835 shares, respectively, including 200,000 shares of restricted stock	418	417
Class B convertible common stock $.001 par value; authorized 400,000,000 shares; issued 32,314,998 shares and outstanding 25,599,998 shares	32	32
Additional paid-in capital	14,763,013	14,744,318
Retained earnings	620,636	567,820
Accumulated other comprehensive income	44,238	39,814

	March 31, 2008	December 31, 2007
Treasury stock 164,814,764 and 158,814,764 shares, respectively	(6,914,329)	(6,768,739)
Total shareholders' equity	8,514,008	8,583,662
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 12,568,523	$ 12,524,520

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

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

		Preferred Stock $.01 Par Value		Common Stock $.001 Par Value		Class B Convertible Common Stock $.001 Par Value					
	Total	**$**	**Shares**	**$**	**Shares**	**$**	**Shares**	**Additional Paid-in Capital**	**Retained Earnings**	**Accum Other Comp. Income**	**Treasury Stock**
							(In thousands)				
Balance as of December 31, 2007	$ 8,583,662	$	1	$ 417	417,077	$ 32	32,315	$ 14,744,318	$ 567,820	$ 39,814	$ (6,768,739)
Comprehensive income:											
Net earnings for the three months ended March 31, 2008	52,816								52,816		
Foreign currency translation	21,418									21,418	
Unrealized losses on available for sale securities	(16,994)									(16,994)	
Comprehensive income	57,240										
Non-cash compensation expense	27,356							27,356			
Issuance of common stock upon exercise of stock options and vesting of restricted stock units, net of withholding taxes	(6,016)			1	873			(6,017)			
Income tax benefit related to the exercise of stock options and vesting of restricted stock units	(2,644)							(2,644)			
Purchase of treasury stock	(145,590)										(145,590)
Balance as of March 31, 2008	$ 8,514,008	$	1	$ 418	417,950	$ 32	32,315	$ 14,763,013	$ 620,636	$ 44,238	$ (6,914,329)

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007 (Restated)
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings available to common shareholders	$ 52,816	$ 60,750
Less: income from discontinued operations, net of tax	(2,581)	(103)
Earnings from continuing operations	50,235	60,647
Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities attributable to continuing operations:		
Depreciation and amortization of intangibles	72,424	68,075
Non-cash compensation expense	28,903	24,226
Amortization of cable distribution fees	1,120	1,241
Amortization of non-cash marketing	6,511	507
Deferred income taxes	4,547	1,801
Gain on sales of loans held for sale	(23,573)	(48,617)
Equity in income of unconsolidated affiliates, net of dividends	(6,445)	(7,847)
Minority interest in (losses) income of consolidated subsidiaries	(895)	113
Changes in current assets and liabilities:		
Accounts receivable	40,292	21,040
Origination of loans held for sale	(611,490)	(1,997,623)
Proceeds from sales of loans held for sale	628,501	1,981,313
Inventories	(15,185)	(31,014)
Prepaid and other current assets	(34,619)	(14,067)
Accounts payable, income taxes payable and other current liabilities	(23,026)	(104,448)
Deferred revenue	17,942	21,669
Funds collected by Ticketmaster on behalf of clients, net	18,963	43,335
Other, net	(5,477)	11,285
Net cash provided by operating activities attributable to continuing operations	148,728	31,636
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(414,203)	(54,576)
Capital expenditures	(36,460)	(51,355)
Purchases of marketable securities	(35,971)	(166,202)
Proceeds from sales and maturities of marketable securities	181,035	283,319
Increase in long term investments	(48,549)	(250)
Other, net	352	35
Net cash (used in) provided by investing activities attributable to continuing operations	(353,796)	10,971
Cash flows from financing activities attributable to continuing operations:		
Borrowing under lines of credit	553,141	1,947,302
Repayments of lines of credit	(553,828)	(1,884,903)
Principal payments on long-term obligations	(20,378)	(11,204)
Purchase of treasury stock	(145,590)	(322,577)
Issuance of common stock, net of withholding taxes	(6,016)	12,699
Excess tax benefits from stock-based awards	322	6,889
Other, net	12,746	(7,860)
Net cash used in financing activities attributable to continuing operations	(159,603)	(259,654)

	Three Months Ended March 31,	
Total cash used in continuing operations	(364,671)	(217,047)
Net cash provided by operating activities attributable to discontinued operations	711	8,182
Net cash used in investing activities attributable to discontinued operations		(1,459)
Net cash used in financing activities attributable to discontinued operations		(280)
Total cash provided by discontinued operations	711	6,443
Effect of exchange rate changes on cash and cash equivalents	12,708	3,631
Net decrease in cash and cash equivalents	(351,252)	(206,973)
Cash and cash equivalents at beginning of period	1,585,302	1,428,140
Cash and cash equivalents at end of period	$ 1,234,050	$ 1,221,167

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 ORGANIZATION

IAC/InterActiveCorp's operating businesses provide products and services through a diversified portfolio of specialized and global brands and enable billions of dollars of consumer direct transactions and advertising for products and services via interactive distribution channels. All references to "IAC," the "Company," "we," "our" or "us" in this report are to IAC/InterActiveCorp.

On November 5, 2007, the Company announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies:

- IAC, which is expected to include:
  - the businesses currently comprising its Media & Advertising sector;
  - the Match, ServiceMagic and Entertainment segments;
  - the businesses currently comprising its Emerging Businesses group, including Shoebuy and ReserveAmerica, which were formerly included in the Retailing and Ticketmaster segments, respectively; and
  - certain investments in unconsolidated affiliates.
- HSN, which is expected to include HSN TV, *HSN.com*, and the Cornerstone Brands, Inc. portfolio of catalogs, websites and retail locations;
- Ticketmaster, which is expected to include its primary domestic and international operations as well as certain investments in unconsolidated affiliates;
- Interval International, which is expected to include the businesses currently comprising the Interval segment; and
- LendingTree, which is expected to include the businesses currently comprising the Lending and Real Estate segments.

In this report, we refer to this transaction as the "Proposed Spin-Offs." The Proposed Spin-Offs are subject to a number of conditions, including, among others, final approval of the transaction specifics by the Company's Board of Directors, confirmation regarding the tax-free nature of the transaction, and the filing and effectiveness of registration statements with the Securities and Exchange Commission (the "SEC"). The Proposed Spin-Offs are expected to be completed in the third quarter of 2008. Upon completion of the Proposed Spin-Offs, IAC would have no ownership interest in HSN, Ticketmaster, Interval International and LendingTree.

During the first quarter of 2008, in contemplation of the Proposed Spin-Offs, IAC reorganized its Retailing, Ticketmaster and Emerging Businesses reporting segments. Shoebuy and ReserveAmerica, which were previously included in the Retailing and Ticketmaster segments, respectively, are now included in the Emerging Businesses segment. Information for all prior periods has been restated for comparative purposes. In addition, the goodwill related to Shoebuy and Reserve America has been reflected in Emerging Businesses for all periods presented. The entities that are expected to comprise IAC after the completion of the Proposed Spin-Offs are referred to collectively herein as "New IAC."

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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 SEC. 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. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2007.

Accounting Estimates

Management of the Company 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 amounts 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: inventory reserves; sales returns and other revenue allowances; recovery of marketable securities; the allowance for doubtful accounts; reserves for losses associated with loans held for sale and loans that have been previously sold; recoverability of long-lived assets; recovery of goodwill and intangibles; income taxes payable and deferred income taxes, including related valuation allowances; various other allowances, reserves and accruals; and assumptions related to the determination of stock-based compensation.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill impairment is determined using a two-step process. The first step of the process is to compare the fair value of a reporting unit with its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit by using various valuation techniques with the primary method employed being a discounted cash flow ("DCF") analysis. Determining fair value using a DCF analysis requires the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not required. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is required to be performed to measure the amount of impairment, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

The impairment test for indefinite-lived intangible assets involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of indefinite-lived intangible assets are determined using a DCF valuation analysis. Common among such approaches is the "relief from royalty" methodology, which is the principal method used by the Company in estimating the fair value of its trade names and trademarks. Significant judgments inherent in this analysis include the determination of royalty rates, discount rates and the terminal growth rates.

Goodwill and indefinite-lived intangible assets, primarily trade names and trademarks, are tested annually for impairment as of October 1 or earlier upon the occurrence of certain events or substantive changes in circumstances. The Company's 2007 annual impairment assessment identified impairment for goodwill and indefinite-lived intangible assets of its Lending and Entertainment reporting units. Certain reporting units are currently operating in dynamic and challenged industry segments. These include HSN, Catalogs, Lending, Real Estate and Entertainment. 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 and their respective indefinite-lived intangible assets been hypothetically lower by 10% as of October 1, 2007, the aggregate book value of goodwill and indefinite-lived intangible assets would have exceeded fair value by approximately $166.0 million at HSN, $74.0 million at Catalogs, $7.0 million at Lending, $8.0 million at Real Estate and $16.0 million at Entertainment. Had the estimated fair values of each of these reporting units and their respective indefinite-lived intangible assets been hypothetically lower by 20% as of October 1, 2007, the book value of goodwill and indefinite-lived intangible assets would have exceeded fair value by approximately $441.0 million at HSN, $156.0 million at Catalogs, $21.0 million at Lending, $18.0 million at Real Estate and $24.0 million at Entertainment.

Long-term Investments

On June 19, 2007, as part of the consideration for the sale of Home Shopping Europe GmbH & Co. KG, and its affiliated TV station HSE 24 ("HSE") to Arcandor AG ("ARO"), IAC received approximately 5.5 million shares of ARO stock (the "ARO Shares") valued at €141 million or $190.1 million plus additional consideration in the form of a contingent value right ("CVR"). The CVR has a value of up to €54 million within three years. 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 in the consolidated statement of operations each period. During the three months ended March 31, 2008, the change in the fair value of the CVR resulted in a gain of $4.3 million which was recognized in current earnings. The CVR was valued at $63.0 million at March 31, 2008 and $54.7 million at December 31, 2007. The ARO stock is an available-for-sale marketable security that is accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and is included in "Long-term investments" in the accompanying consolidated balance sheets, with a carrying value of $109.5 million at March 31, 2008 and $130.8 million at December 31, 2007. At March 31, 2008, included within other comprehensive income, a separate component of shareholders' equity, was an unrealized loss of $63.4 million related to this marketable security, which is recorded net of a deferred tax benefit of $39.9 million. The severity of the unrealized loss (fair value is approximately 50% less than cost) and duration of the unrealized loss (less than 10 months) are consistent with the weak and adverse conditions affecting the market in which ARO operates. The Company has evaluated the prospects of ARO in relation to the severity and duration of the unrealized loss and the Company's ability and intent to hold the ARO Shares for a period of time sufficient for an expected recovery of fair value which is influenced, in part, by the June 2010 maturity of the related CVR. Based upon this evaluation, the Company does not consider the unrealized loss related to the ARO Shares to be other-than-temporary.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be applied prospectively, except as it relates to disclosures, for which the effects will be applied retrospectively for all periods presented. Early adoption is not permitted. The Company is currently assessing the impact of SFAS No. 160 on its consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces FASB Statement No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. The Company is currently assessing the impact of the adoption of SFAS No. 141R on its consolidated financial position, results of operations and cash flows.

Reclassifications

The accompanying consolidated statements of operations and cash flows for the three months ended March 31, 2007 have been reclassified to present HSE, which was previously reported in IAC's Retailing segment, as a discontinued operation. See Note 6 for a further description of discontinued operations.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restatement of Prior Period Consolidated Financial Statements

Prior to the fourth quarter 2007, the Company's Interval segment improperly recorded deferred revenue and certain related direct costs. The error was due primarily to the recognition of membership renewal revenue beginning in the month a member renewed its membership rather than beginning with the actual start date of the renewal period. The Company has restated its consolidated statements of operations and cash flows for the three months ended March 31, 2007. For further information, refer to the Company's annual report on Form 10-K for the year ended December 31, 2007.

Consolidated Statement of Operations for the three months ended March 31, 2007:

	As originally reported(a)	Effect of restatement	As restated
		(In thousands)	
Service revenue	$ 786,175	$ (2,550)	$ 783,625
Net revenue	1,492,681	(2,550)	1,490,131
Cost of sales service revenue	335,073	(413)	334,660
Gross profit	720,953	(2,137)	718,816
Operating income	87,583	(2,137)	85,446
Earnings from continuing operations before income taxes and minority interest	100,386	(2,137)	98,249
Income tax provision	(38,285)	796	(37,489)
Earnings from continuing operations	61,988	(1,341)	60,647
Net earnings available to common shareholders	62,091	(1,341)	60,750
Earnings per share from continuing operations:			
Basic earnings per share	0.22	(0.01)	0.21
Diluted earnings per share	0.20	0.00	0.20
Earnings per share available to common shareholders:			
Basic earnings per share	0.22	(0.01)	0.21
Diluted earnings per share	0.20	0.00	0.20

Consolidated Statement of Cash Flows for the three months ended March 31, 2007:

	As originally reported(a)	Effect of restatement	As restated
		(In thousands)	
Earnings from continuing operations	$ 61,988	$ (1,341)	$ 60,647
Deferred income taxes	2,022	(221)	1,801
Change in accounts payable, income taxes payable and other current liabilities	(103,873)	(575)	(104,448)
Change in deferred revenue	19,532	2,137	21,669

(a) The reclassification of HSE as a discontinued operation is reflected in the balances as originally reported.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other

Effective April 1, 2007, the Company began to capitalize and amortize the costs associated with certain arrangements that require it to pay a fee per access point delivered. These access points are generally in the form of downloadable search toolbars associated with the Company's Media & Advertising businesses. These fees are amortized over the estimated useful lives of the access points to the extent the Company can reasonably estimate a probable future economic benefit and the period over which such benefit will be realized. Otherwise, the fees are charged to expense as incurred. Amounts capitalized during the three months ended March 31, 2008 are being amortized over a period of 18 months. For fees paid prior to April 1, 2007, such benefit or period could not be reasonably estimated and the fees were charged to expense as incurred. The effect of capitalizing and amortizing these costs in the first quarter of 2008 was to reduce expense by $4.6 million.

NOTE 3 GOODWILL AND INTANGIBLE ASSETS

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

	March 31, 2008	December 31, 2007
Goodwill	$ 6,794,102	$ 6,473,014
Intangible assets with indefinite lives	1,100,331	1,100,328
Intangible assets with definite lives, net	421,640	304,569
Total goodwill and intangible assets, net	$ 8,316,073	$ 7,877,911

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At March 31, 2008, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Purchase agreements	$ 318,354	$ (257,738)	$ 60,616	6.8
Distribution agreements	205,889	(191,341)	14,548	4.1
Technology	232,483	(157,075)	75,408	4.4
Customer lists	238,589	(134,122)	104,467	7.5
Merchandise agreements	36,493	(33,719)	2,774	4.6
Other	229,041	(65,214)	163,827	9.3
Total	$ 1,260,849	$ (839,209)	$ 421,640	

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 GOODWILL AND INTANGIBLE ASSETS (Continued)

At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Purchase agreements	$ 316,427	$ (246,718)	$ 69,709	6.8
Distribution agreements	205,069	(189,091)	15,978	4.1
Technology	208,638	(149,633)	59,005	4.4
Customer lists	200,390	(124,023)	76,367	7.7
Merchandise agreements	36,493	(33,488)	3,005	4.6
Other	144,592	(64,087)	80,505	7.9
Total	$ 1,111,609	$ (807,040)	$ 304,569	

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2007 balances, such amortization for the next five years and thereafter is estimated to be as follows (in thousands):

Years Ending December 31,	
2008	$ 93,418
2009	71,266
2010	47,881
2011	30,957
2012	24,007
2013 and thereafter	37,040
	$ 304,569

The following table presents the balance of goodwill by segment, including changes in the carrying amount of goodwill, for the three months ended March 31, 2008 (in thousands):

	Balance as of January 1, 2008	Additions	(Deductions)	Foreign Exchange Translation	Balance as of March 31, 2008
New IAC:					
Media & Advertising	$ 1,361,914	$	$ (112)	$ (4)	$ 1,361,798
Match	233,397			2,104	235,501
ServiceMagic	99,641				99,641
Entertainment	19,350	321	(554)		19,117
Emerging Businesses	128,827			(519)	128,308
Total New IAC	1,843,129	321	(666)	1,581	1,844,365
Retailing (to be renamed HSN)	2,882,992				2,882,992
Ticketmaster	1,090,418	315,195	(14)	4,932	1,410,531
LendingTree:					
Lending	71,850		(262)		71,588
Real Estate	70,265		(11)		70,254
Total LendingTree	142,115		(273)		141,842

	Balance as of January 1, 2008	Additions	(Deductions)	Foreign Exchange Translation	Balance as of March 31, 2008
Interval	514,360	12			514,372
Total	$ 6,473,014	$ 315,528	$ (953)	$ 6,513	$ 6,794,102

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 GOODWILL AND INTANGIBLE ASSETS (Continued)

Additions principally relate to the acquisitions of Paciolan, TicketsNow and GET ME IN! LTD. Deductions principally relate to the establishment of deferred tax assets related to acquired tax attributes and the income tax benefit realized pursuant to the exercise of stock options assumed in business acquisitions that were vested at the transaction date and are treated as a reduction in goodwill when the income tax deductions are realized.

NOTE 4 PROPERTY AND EQUIPMENT

The balance of property and equipment, net is as follows (in thousands):

	March 31, 2008	December 31, 2007
Computer equipment and capitalized software	$ 869,475	$ 827,984
Buildings and leasehold improvements	322,710	316,208
Furniture and other equipment	138,693	134,001
Projects in progress	80,210	82,589
Land	19,353	19,395
	1,430,441	1,380,177
Less: accumulated depreciation and amortization	(769,795)	(728,703)
Total property and equipment, net	$ 660,646	$ 651,474

NOTE 5 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 6, 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 March 31,	
	2008	2007
	(In thousands)	
Revenue:		
New IAC:		
Media & Advertising	$ 215,549	$ 168,054
Match	90,536	82,401
ServiceMagic	28,948	21,594
Entertainment	20,962	20,701
Emerging Businesses	43,752	28,437
Intercompany elimination	(7,731)	(490)
Total New IAC	392,016	320,697
Retailing (to be renamed HSN)	676,886	666,705
Ticketmaster	348,981	303,577
LendingTree:		
Lending	61,811	99,998
Real Estate	8,382	13,231

	Three months ended March 31,	
Total LendingTree	70,193	113,229
Interval	115,937	86,433
Intercompany elimination	(1,664)	(510)
Total	$ 1,602,349	$ 1,490,131

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 SEGMENT INFORMATION (Continued)

	Three months ended March 31, 2008	Three months ended March 31, 2007
	(In thousands)	
Operating Income (Loss):		
New IAC:		
Media & Advertising	$ 30,695	$ 10,511
Match	7,136	8,184
ServiceMagic	5,610	5,300
Entertainment	(14,487)	(13,732)
Emerging Businesses	(8,704)	(3,645)
Corporate	(53,595)	(45,859)
Total New IAC	(33,345)	(39,241)
Retailing (to be renamed HSN)	20,241	35,186
Ticketmaster	51,025	64,783
LendingTree:		
Lending	(3,658)	127
Real Estate	(5,042)	(7,972)
Total LendingTree	(8,700)	(7,845)
Interval	40,791	32,563
Total	$ 70,012	$ 85,446

The Company's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense and amortization of non-cash marketing, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) 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 prepared in

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 SEGMENT INFORMATION (Continued)

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 March 31, 2008	Three months ended March 31, 2007
	(In thousands)	
Operating Income Before Amortization:		
New IAC:		
Media & Advertising	$ 36,925	$ 17,197
Match	10,139	8,398
ServiceMagic	6,149	6,222
Entertainment	(13,939)	(13,047)
Emerging Businesses	(7,222)	(2,179)
Corporate	(27,049)	(22,628)
Total New IAC	5,003	(6,037)
Retailing (to be renamed HSN)	26,213	39,384
Ticketmaster	61,683	71,636
LendingTree:		
Lending	(1,014)	3,113
Real Estate	(3,934)	(6,557)
Total LendingTree	(4,948)	(3,444)
Interval	47,296	38,868
Total	$ 135,247	$ 140,407

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 SEGMENT INFORMATION (Continued)

The following tables reconcile Operating Income Before Amortization to operating income (loss) for the Company's reporting segments and to net earnings available to common shareholders in total (in millions, rounding differences may occur):

	For the three months ended March 31, 2008:				
	Operating Income Before Amortization	**Non-cash compensation expense (A)**	**Amortization of non-cash marketing**	**Amortization of intangibles**	**Operating income (loss)**
New IAC:					
Media & Advertising	$ 36.9	$	$	$ (6.2)	$ 30.7
Match	10.1		(2.8)	(0.2)	7.1
ServiceMagic	6.1	(0.2)		(0.4)	5.6
Entertainment	(13.9)			(0.5)	(14.5)
Emerging Businesses	(7.2)	(0.2)		(1.2)	(8.7)
Corporate	(27.0)	(26.5)			(53.6)
Total New IAC	5.0	(26.9)	(2.8)	(8.6)	(33.3)
Retailing (to be renamed HSN)	26.2	(0.1)	(3.7)	(2.2)	20.2
Ticketmaster	61.7	(1.8)		(8.9)	51.0
LendingTree:					
Lending	(1.0)	(0.1)		(2.6)	(3.7)
Real Estate	(3.9)			(1.1)	(5.0)
Total LendingTree	(4.9)	(0.1)		(3.7)	(8.7)
Interval	47.3			(6.5)	40.8
Total	$ 135.2	$ (28.9)	$ (6.5)	$ (29.8)	70.0
Other income, net					16.1
Earnings from continuing operations before income taxes and minority interest					86.1
Income tax provision					(36.8)
Minority interest in losses of consolidated subsidiaries					0.9
Earnings from continuing operations					50.2
Income from discontinued operations, net of tax					2.6
Net earnings available to common shareholders					$ 52.8

(A) Non-cash compensation expense includes $2.1 million, $2.3 million, $24.5 million and $0.1 million which are included in cost of sales, selling and marketing expense, general and administrative

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 SEGMENT INFORMATION (Continued)

expense and other operating expense, respectively, in the accompanying consolidated statement of operations.

For the three months ended March 31, 2007:

	Operating Income Before Amortization	Non-cash compensation expense (B)	Amortization of non-cash marketing	Amortization of intangibles	Operating income (loss)
New IAC:					
Media & Advertising	$ 17.2	$	$ (0.5)	$ (6.2)	$ 10.5
Match	8.4			(0.2)	8.2
ServiceMagic	6.2	(0.2)		(0.8)	5.3
Entertainment	(13.0)			(0.7)	(13.7)
Emerging Businesses	(2.2)	(0.6)		(0.9)	(3.6)
Corporate	(22.6)	(23.2)			(45.9)
Total New IAC	(6.0)	(24.0)	(0.5)	(8.7)	(39.2)
Retailing (to be renamed HSN)	39.4	(0.1)		(4.1)	35.2
Ticketmaster	71.6			(6.9)	64.8
LendingTree:					
Lending	3.1	(0.1)		(2.9)	0.1
Real Estate	(6.6)			(1.4)	(8.0)
Total LendingTree	(3.4)	(0.1)		(4.3)	(7.8)
Interval	38.9			(6.3)	32.6
Total	$ 140.4	$ (24.2)	$ (0.5)	$ (30.2)	85.4
Other income, net					12.8
Earnings from continuing operations before income taxes and minority interest					98.2
Income tax provision					(37.5)
Minority interest in income of consolidated subsidiaries					(0.1)
Earnings from continuing operations					60.6
Income from discontinued operations, net of tax					0.1
Net earnings available to common shareholders					$ 60.7

(B) Non-cash compensation expense includes $1.8 million, $2.0 million and $20.3 million which are included in cost of sales, selling and marketing expense and general and administrative expense, respectively, in the accompanying consolidated statement of operations.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 SEGMENT INFORMATION (Continued)

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

	Three months ended March 31,	
	2008	2007
	(In thousands)	
Revenue:		
United States	$ 1,401,279	$ 1,337,583
All other countries	201,070	152,548
	$ 1,602,349	$ 1,490,131

	March 31, 2008	December 31, 2007
	(In thousands)	
Long-lived assets:		
United States	$ 635,821	$ 627,692
All other countries	35,344	35,420
	$ 671,165	$ 663,112

NOTE 6 DISCONTINUED OPERATIONS

On June 19, 2007, IAC sold HSE, previously reported in the International segment of IAC's Retailing sector. See Note 9 for a further description of the sale of HSE. Accordingly, HSE is presented as a discontinued operation in the statement of operations for the three months ended March 31, 2007. Quiz TV Limited, iBuy, TV Travel Shop, Styleclick and ECS are also presented as discontinued operations 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 March 31,	
	2008	2007
Net revenue	$ 3	$ 105,917
(Loss) earnings before income taxes	$ (2,006)	$ 1,263
Income tax benefit (provision)	4,587	(1,160)
Net earnings	$ 2,581	$ 103

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 EARNINGS PER SHARE

The following table sets forth the computation of Basic and Diluted GAAP earnings per share.

	Three months ended March 31,			
	2008		2007	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Net earnings from continuing operations available to common shareholders	$ 50,235	$ 50,235	$ 60,647	$ 60,647
Interest expense on Convertible Notes, net of tax(a)(b)				121
Net earnings from continuing operations available to common shareholders after assumed conversions of Convertible Notes, if applicable	50,235	50,235	60,647	60,768
Income from discontinued operations, net of tax	2,581	2,581	103	103
Net earnings available to common shareholders	$ 52,816	$ 52,816	$ 60,750	$ 60,871
Denominator:				
Basic shares outstanding	278,767	278,767	287,191	287,191
Dilutive securities including stock options, warrants and restricted stock and share units		7,477		17,494
Denominator for earnings per share weighted average shares(c)	278,767	286,244	287,191	304,685
Earnings per share:				
Earnings per share from continuing operations	$ 0.18	$ 0.18	$ 0.21	$ 0.20
Discontinued operations, net of tax	0.01			
Earnings per share from net earnings	$ 0.19	$ 0.18	$ 0.21	$ 0.20

(a) For the three months ended March 31, 2008, approximately 0.5 million weighted average shares related to the assumed conversion of the Company's Convertible Notes were excluded from the calculation of diluted earnings per share because the effect would be anti-dilutive. Accordingly, under the "if-converted" method, the interest expense on the Convertible Notes, net of tax, was included in net earnings from continuing operations available to common shareholders.

(b) For the three months ended March 31, 2007, approximately 0.6 million weighted average common shares, related to the assumed conversion of the Company's Convertible Notes were included in the calculation of diluted earnings per share. Accordingly, under the "if-converted" method, the interest expense on the Convertible Notes, net of tax, was excluded from net earnings from continuing operations available to common shareholders.

(c) 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 Company's Convertible Notes. For the three months ended March 31, 2008 and 2007, approximately 45.3 million and 11.4 million shares, respectively, that could potentially dilute basic earnings per share in the future 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 8 EQUITY INVESTMENTS IN UNCONSOLIDATED AFFILIATES

At March 31, 2008 and December 31, 2007, the Company's equity investments in unconsolidated affiliates totaled $343.2 million and $293.2 million, respectively, and are included in "Long-term investments" in the accompanying consolidated balance sheets.

Summarized aggregated financial information for the Company's equity investments is as follows (in thousands):

	Three months ended March 31,	
	2008	2007
Net sales	$ 336,734	$ 243,073
Gross profit	131,943	99,709
Net income	23,112	20,971

NOTE 9 FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). In accordance with SFAS No. 157, 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.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2008:

	Recurring Fair Value Measurements Using			
	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
	(In thousands)			
Marketable securities	$ 162,757	$ 6,550	$	$ 169,307
Long-term investments	117,612		13,793	131,405
Loans held for sale, net		87,532		87,532
Derivatives related to long-term debt		17,769		17,769
Net derivatives related to loans held for sale and interest rate lock commitments		(1,612)	5,264	3,652
Derivative assets created in the Expedia spin-off			10,138	10,138
Derivatives liabilities created in the Expedia spin-off			(6,940)	(6,940)
Derivative asset created in the HSE sale			63,003	63,003
Total	$ 280,369	$ 110,239	$ 85,258	$ 475,866

The following table presents 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):

	Long-term investments	Net derivatives related to loans held for sale and interest rate lock commitments	Net derivatives created in the Expedia spin-off	Derivative asset created in the HSE sale
	(In thousands)			
Balance at January 1, 2008	$ 14,763	$ 3,465	$ 890	$ 54,656
Total net gains or losses (realized and unrealized):				
Included in earnings		15,361	2,308	4,286
Included in other comprehensive income	(970)			4,061
Transfers of IRLCs to closed loans		(13,094)		
Transfers in and/or out of Level 3		(468)		
Balance at March 31, 2008	$ 13,793	$ 5,264	$ 3,198	$ 63,003

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

The following table presents the gains and losses included in earnings for the three months ended March 31, 2008 relating to the Company's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Net derivatives related to loans held for sale and interest rate lock commitments	Net derivatives created in the Expedia spin-off	Derivative asset created in the HSE sale
		(In thousands)	
Total gains included in earnings for the three months ended March 31, 2008:			
Revenue	$ 15,361	$	$
Other income		2,308	4,286
Total	$ 15,361	$ 2,308	$ 4,286
Change in unrealized gains relating to assets and liabilities still held at March 31, 2008:			
Revenue	$ 5,264	$	$
Other income		2,308	4,286
Total	$ 5,264	$ 2,308	$ 4,286

Long-term Investments

Long-term investments in the table above that are measured at fair value using significant unobservable inputs (Level 3) include available-for-sale auction rate securities accounted for in accordance with SFAS No. 115. In the third quarter of 2007, these auction rate securities had failed auctions due to sell orders exceeding buy orders. These auction rate securities are valued by discounting the future cash flow streams of the securities over the estimated period that the securities will be held until they are expected to be refinanced. Credit spreads and other risk factors are also considered in establishing a fair value. At March 31, 2008, $13.8 million, which is net of an unrealized loss of $1.2 million, was associated with failed auctions and accordingly, were reclassified as long-term investments in the first quarter of 2008. These auction rate securities are rated AAA/Aaa. Due to their high rating and the general quality of the investments underlying the portfolios, the unrealized loss related to these securities is not considered to be an other-than-temporary impairment.

Derivative assets and liabilities created in the Expedia spin-off and sale of HSE

The derivative assets and derivative liabilities created in the Expedia spin-off and the derivative asset created in the sale of HSE are maintained at fair value. The derivative asset created in the sale of HSE is valued using Monte Carlo simulation relying on various observable and unobservable inputs including risk free interest rates, stock price volatility and credit risk.

Net derivatives related to loans held for sale and interest rate lock commitments

Prior to April 1, 2007, LendingTree Loans hedged the changes in fair value of certain loans held for sale primarily by entering into mortgage forward delivery contracts. Although LendingTree Loans continues to enter into forward delivery contracts for risk management purposes it no longer designates

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

these derivatives as hedges for accounting purposes. When hedge accounting was discontinued, the affected loans held for sale were no longer adjusted for changes in fair value. However, the changes in fair value of the forward delivery contracts continued to be recognized in current earnings as a component of revenue. The fair value of the forward delivery contracts is recorded in "Prepaid and other current assets" and/or "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets. For the three months ended March 31, 2008, the Company recognized losses of less than $0.1 million related to the changes in fair value of forward delivery contracts related to loans held for sale.

LendingTree Loans enters into commitments with consumers to originate loans at a locked in interest rate (interest rate lock commitments "IRLCs"). IAC reports IRLCs as derivative instruments at fair value in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). Accordingly, LendingTree Loans determines the fair value of IRLCs using current secondary market prices for underlying loans with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability, or fallout factor. The fair value of IRLCs is subject to change primarily due to changes in interest rates and fallout factors. Under LendingTree Loans' risk management policy, LendingTree Loans hedges the changes in fair value of IRLCs primarily by entering into mortgage forward delivery contracts which can reduce the volatility of economic outcomes. Neither the IRLCs nor the related hedging instrument qualify for hedge accounting and both are recorded at fair value with changes in fair value being recorded in current earnings as a component of revenue in the statement of operations.

Prior to the adoption of SFAS No. 157 the recognition of gains and losses at the inception of a derivative contract were prohibited unless the fair value of the contract was evidenced by a quoted price in an active market. As no active market exists for IRLCs, such day one gains and losses were not recognized until the related loan was sold. Prior to January 1, 2008, guidance also prohibited including the value of servicing the loan in calculating the fair value of an IRLC. Such guidance was rescinded by Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" ("SAB 109"). Accordingly, with the adoption of SFAS No. 157 and SAB 109 on January 1, 2008, the day one gains and servicing value, adjusted by the loan funding probability, are included in the value of IRLCs.

The net change in fair value of the IRLCs and related forward delivery contracts for the three months ended March 31, 2008 and 2007 resulted in gains of $14.8 million and losses of $0.3 million, respectively, which have been recognized in the accompanying consolidated statements of operations. The significant change year over year is due principally to the inclusion of day one gains and the value of servicing the loan in 2008 associated with the adoption of SFAS No. 157 and SAB 109. The IRLCs are recorded in "Prepaid and other current assets" and/or "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets. At March 31, 2008, there was $254.1 million of IRLCs notional value outstanding.

Effective January 1, 2008 the Company adopted SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure certain financial instruments at fair value with the objective of reducing both the complexity in the accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Upon adoption, IAC elected to account for loans held for sale issued after January 1, 2008 at fair value.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

Electing the fair value option allows a better offset of the changes in fair values of the loans and the forward delivery contracts used to economically hedge them without the burden of complying with the requirements for hedge accounting under SFAS No. 133.

The Company did not elect the fair value option on loans held for sale of $3.7 million originated prior to January 1, 2008. These loans are carried at the lower of cost or market value determined on an aggregate basis except for loans that are impaired, which are assessed on an individual basis. The fair value of impaired loans at March 31, 2008, measured based on significant unobservable inputs (Level 3) was $2.9 million. The fair value of impaired loans is measured on a non-recurring basis and is based on management's best estimate of the market value of such loans and considers reprice bids received from the investors prior to repurchase, if applicable, or current bids in the secondary market for similar loans and represent management's best estimate of the market value of such loans.

During the three months ended March 31, 2008, the change in fair value of loans held for sale for which the fair value option has been elected was a loss of $0.1 million and is included as a component of revenue in the accompanying consolidated statement of operations.

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale at March 31, 2008 for which the fair value option has been elected:

	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Difference
		(In thousands)	
Loans held for sale, net	$ 87,532	$ 84,952	$ 2,580

NOTE 10 GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

On July 19, 2005, IAC completed the acquisition of IAC Search & Media. As part of the transaction, IAC irrevocably and unconditionally guaranteed the Convertible Notes. IAC Search & Media is wholly owned by IAC.

The following tables present condensed consolidating financial information as of March 31, 2008 and December 31, 2007 and for the three months ended March 31, 2008 and 2007 for: the guarantor, IAC, on a stand-alone basis; IAC Search & Media (since its acquisition on July 19, 2005), on a stand alone basis; the combined non-guarantor subsidiaries of IAC; and, IAC on a consolidated basis.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION (Continued)

Balance sheet as of March 31, 2008:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
			(In thousands)		
Current assets	$ 96,785	$ 151,954	$ 2,561,582	$	$ 2,810,321
Property and equipment, net		72,476	588,170		660,646
Goodwill and intangible assets, net		1,663,641	6,652,432		8,316,073
Investment in subsidiaries	14,940,845	1,327,061	11,881,899	(28,149,805)	
Other assets	142,404	8,665	630,414		781,483
Total assets	$ 15,180,034	$ 3,223,797	$ 22,314,497	$ (28,149,805)	$ 12,568,523
Current liabilities	$ 11,083	$ 57,626	$ 1,663,613	$	$ 1,732,322
Long term obligations, net of current maturities	767,769		82,236		850,005
Other liabilities and minority interest	733,363	76,954	661,871		1,472,188
Intercompany liabilities (receivables)	5,153,811	(213,946)	(4,939,865)		
Interdivisional equity		3,256,838	20,753,320	(24,010,158)	
Shareholders' equity	8,514,008	46,325	4,093,322	(4,139,647)	8,514,008
Total liabilities and shareholders' equity	$ 15,180,034	$ 3,223,797	$ 22,314,497	$ (28,149,805)	$ 12,568,523

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION (Continued)

Balance sheet as of December 31, 2007:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
			(In thousands)		
Current assets	$ 93,819	$ 152,425	$ 3,041,185	$	$ 3,287,429
Property and equipment, net		75,711	575,763		651,474
Goodwill and intangible assets, net		1,670,211	6,207,700		7,877,911
Investment in subsidiaries	14,492,986	1,213,532	11,881,899	(27,588,417)	
Other assets	83,139	8,422	616,145		707,706
Total assets	$ 14,669,944	$ 3,120,301	$ 22,322,692	$ (27,588,417)	$ 12,524,520
Current liabilities	$ 29,067	$ 77,077	$ 1,582,668	$	$ 1,688,812
Long term obligations, net of current maturities	754,542		80,024		834,566
Other liabilities and minority interest	733,978	76,954	606,548		1,417,480
Intercompany liabilities (receivables)	4,568,695	(199,063)	(4,369,632)		
Interdivisional equity		3,143,309	20,557,068	(23,700,377)	
Shareholders' equity	8,583,662	22,024	3,866,016	(3,888,040)	8,583,662
Total liabilities and shareholders' equity	$ 14,669,944	$ 3,120,301	$ 22,322,692	$ (27,588,417)	$ 12,524,520

Statement of operations for the three months ended March 31, 2008:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
			(In thousands)		
Net revenue	$	$ 192,215	$ 1,410,134	$	$ 1,602,349
Operating expenses		(164,375)	(1,367,962)		(1,532,337)
Interest (expense) income, net	(136,186)	1,889	131,937		(2,360)
Other income, net	186,421	6,944	68,631	(243,499)	18,497
Income tax provision		(12,102)	(24,707)		(36,809)
Minority interest in losses of consolidated subsidiaries			895		895
Earnings from continuing operations	50,235	24,571	218,928	(243,499)	50,235
Discontinued operations, net of tax	2,581		2,581	(2,581)	2,581
Net earnings available to common shareholders	$ 52,816	$ 24,571	$ 221,509	$ (246,080)	$ 52,816

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION (Continued)

Statement of cash flows for the three months ended March 31, 2008:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
			(In thousands)		
Cash flows (used in) provided by operating activities attributable to continuing operations	$ (195,596)	$ 31,587	$ 312,737	$	$ 148,728
Cash flows used in investing activities attributable to continuing operations	(244,425)	(2,659)	(106,712)		(353,796)
Cash flows provided by (used in) financing activities attributable to continuing operations	440,021	(26,343)	(573,281)		(159,603)
Net cash provided by discontinued operations			711		711
Effect of exchange rate changes on cash and cash equivalents		(269)	12,977		12,708
Cash and cash equivalents at beginning of period		64,977	1,520,325		1,585,302
Cash and cash equivalents at end of period	$	$ 67,293	$ 1,166,757	$	$ 1,234,050

Statement of operations for the three months ended March 31, 2007:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
			(In thousands)		
Net revenue	$	$ 146,951	$ 1,343,180	$	$ 1,490,131
Operating expenses		(135,369)	(1,269,316)		(1,404,685)
Interest (expense) income, net	(123,935)	1,236	126,974		4,275
Other income (expense), net	184,579	(1,671)	8,765	(183,145)	8,528
Income tax provision		(4,046)	(33,443)		(37,489)
Minority interest in losses (income) of consolidated subsidiaries	3		(116)		(113)
Earnings from continuing operations	60,647	7,101	176,044	(183,145)	60,647
Discontinued operations, net of tax	103		103	(103)	103
Net earnings available to common shareholders	$ 60,750	$ 7,101	$ 176,147	$ (183,248)	$ 60,750

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION (Continued)

Statement of cash flows for the three months ended March 31, 2007:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
			(In thousands)		
Cash flows (used in) provided by operating activities attributable to continuing operations	$ (87,450)	$ 31,074	$ 88,012	$	$ 31,636
Cash flows (used in) provided by investing activities attributable to continuing operations	(54,062)	(8,642)	73,675		10,971
Cash flows provided by (used in) financing activities attributable to continuing operations	141,512	(18,700)	(382,466)		(259,654)
Net cash provided by discontinued operations			6,443		6,443
Effect of exchange rate changes on cash and cash equivalents		(66)	3,697		3,631
Cash and cash equivalents at beginning of period		51,013	1,377,127		1,428,140
Cash and cash equivalents at end of period	$	$ 54,679	$ 1,166,488	$	$ 1,221,167

NOTE 11 SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended March 31, 2007, $6.0 million in aggregate principal amount of Convertible Notes was converted by the holders. Upon conversion, 0.2 million shares of IAC common stock and 0.2 million shares of Expedia common stock were issued to the holders. There were no such conversions during the three months ended March 31, 2008.

NOTE 12 COMPREHENSIVE INCOME

Comprehensive income is comprised of (in thousands):

	Three Months Ended March 31,	
	2008	2007
Net earnings available to common shareholders	$ 52,816	$ 60,750
Foreign currency translation	21,418	2,802
Unrealized (losses) gains on available for sale securities	(16,994)	1,355
Net losses on derivative contracts		(2,462)
Other comprehensive income	4,424	1,695
Comprehensive income	$ 57,240	$ 62,445

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 COMPREHENSIVE INCOME (Continued)

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

	March 31, 2008	December 31, 2007
Foreign currency translation	$ 107,193	$ 85,775
Unrealized losses on available for sale securities	(62,955)	(45,961)
Accumulated other comprehensive income	$ 44,238	$ 39,814

NOTE 13 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 tax 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 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 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 current quarter.

For the three months ended March 31, 2008 and 2007, the Company recorded a tax provision for continuing operations of $36.8 million and $37.5 million, respectively, which represent effective tax rates of 43% and 38%, respectively. The tax rate for the three months ended March 31, 2008 is higher than the federal statutory rate of 35% due principally to state taxes, interest on tax contingencies, non-deductible costs related to the Proposed Spin-Offs, and a write-off of a deferred tax asset related to non-cash compensation, partially offset by foreign income taxed at lower rates. The tax rate for the three months ended March 31, 2007 is higher than the federal statutory rate of 35% due principally to state taxes and interest on tax contingencies, partially offset by foreign tax credits associated with equity income from unconsolidated affiliates.

As of December 31, 2007 and March 31, 2008, the Company had unrecognized tax benefits of approximately $235.6 million and $231.3 million, respectively. Unrecognized tax benefits for the quarter ended March 31, 2008 decreased by $4.3 million of which $3.4 million was recorded as a benefit to discontinued operations and relates to the effective settlement of prior year tax positions with the Internal Revenue Service ("IRS"). The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense for the three months ended March 31, 2008 is $2.6 million, net of related deferred taxes, for interest on

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13 INCOME TAXES (Continued)

unrecognized tax benefits. At March 31, 2008 the Company has accrued $43.0 million 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 tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year 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. If unrecognized tax benefits are subsequently recognized, approximately $46.4 million and $34.1 million, net of related deferred tax assets, would reduce income tax expense from continuing operations and discontinued operations, respectively.

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, 2008. Various state, local and foreign jurisdictions are currently under exam, the most significant of which are California, Florida, New York and New York City, for various tax years after December 31, 2001. The examinations are expected to be completed by late 2008. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $37.9 million within twelve months of the current reporting date due to settlements and the reversal of deductible temporary differences which will 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 14 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 13 for discussion related to income tax contingencies.

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

GENERAL

Management Overview

IAC/InterActiveCorp's operating businesses provide products and services through a diversified portfolio of specialized and global brands and enable billions of dollars of consumer direct transactions and advertising for products and services via interactive distribution channels. All references to "IAC," the "Company," "we," "our" or "us" in this report are to IAC/InterActiveCorp.

On November 5, 2007, the Company announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies:

- IAC, which is expected to include:
  - the businesses currently comprising its Media & Advertising sector;
  - the Match, ServiceMagic and Entertainment segments;
  - the businesses currently comprising its Emerging Businesses group, including Shoebuy and ReserveAmerica, which were formerly included in the Retailing and Ticketmaster segments, respectively; and
  - certain investments in unconsolidated affiliates.
- HSN, which is expected to include HSN TV, *HSN.com*, and the Cornerstone Brands, Inc. portfolio of catalogs, web sites and retail locations;
- Ticketmaster, which is expected to include its primary domestic and international operations as well as certain investments in unconsolidated affiliates;
- Interval International, which is expected to include the businesses currently in the Interval segment; and,
- LendingTree, which is expected to include the businesses currently in the Lending and Real Estate segments.

In this report, we refer to this transaction as the "Proposed Spin-Offs." The Proposed Spin-Offs are subject to a number of conditions, including, among others, final approval of the transaction specifics by the Company's Board of Directors, confirmation regarding the tax-free nature of the transaction, and the filing and effectiveness of registration statements with the Securities and Exchange Commission. The Proposed Spin-Offs are expected to be completed in the third quarter of 2008. Upon completion of the Proposed Spin-Offs, IAC would have no ownership interest in HSN, Ticketmaster, Interval International and LendingTree.

During the first quarter of 2008, in contemplation of the Proposed Spin-Offs, IAC reorganized its Retailing, Ticketmaster and Emerging Businesses reporting segments. Shoebuy and ReserveAmerica, which were previously included in the Retailing and Ticketmaster segments, respectively, are now included in the Emerging Businesses segment. Information for all prior periods has been restated for comparative purposes. The entities that are expected to comprise IAC after the completion of the Proposed Spin-Offs are referred to collectively herein as "New IAC".

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, 2007.

Results of operations for the three months ended March 31, 2008 compared to the three months ended March 31, 2007

Given the Proposed Spin-Offs, we thought it appropriate to present results for the businesses which are expected to comprise New IAC, HSN, Ticketmaster, LendingTree and Interval International after the spin-offs. The information is presented for illustrative purposes only and is not indicative of the operating results that would have been achieved if the Proposed Spin-Offs had occurred prior to, or during, the periods presented, nor is it indicative of future operating results. Set forth below are the contributions to consolidated revenue, operating income and Operating Income Before Amortization (as defined in IAC's Principles of Financial Reporting) for the three months ended March 31, 2008 and 2007 (rounding differences may occur):

	Three months ended March 31,			
	2008	Percentage of total	2007	Percentage of total
	(Dollars in millions)			
Revenue:				
New IAC	$ 392.0	24%	$ 320.7	22%
Retailing (To be named HSN)	676.9	42%	666.7	45%
Ticketmaster	349.0	22%	303.6	20%
LendingTree	70.2	4%	113.2	8%
Interval	115.9	7%	86.4	6%
Intercompany elimination	(1.7)	0%	(0.5)	0%
Total	$ 1,602.3	100%	$ 1,490.1	100%

	Three months ended March 31,*			
	2008	Percentage of total	2007	Percentage of total
	(Dollars in millions)			
Operating Income (Loss):				
New IAC	$ (33.3)	(48)%	$ (39.2)	(46)%
Retailing (To be named HSN)	20.2	29%	35.2	41%
Ticketmaster	51.0	73%	64.8	76%
LendingTree	(8.7)	(12)%	(7.8)	(9)%
Interval	40.8	58%	32.6	38%
Total	$ 70.0	100%	$ 85.4	100%