IAC/INTERACTIVECORP
Form 10-Q
August 09, 2007

As filed with the Securities and Exchange Commission on August 9, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2007

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 x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

As of July 27, 2007, the following shares of the Registrant s common stock were outstanding:

Common Stock, including 210,056 shares of restricted stock	262,618,198

Class B Common Stock	25,599,998
Total outstanding Common Stock	288,218,196

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of July 27, 2007 was $6,458,210,847. 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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(In thousands, except per share data)			
Product sales	$ 720,801	$ 714,464	$ 1,427,307	$ 1,411,201
Service revenue	791,593	717,159	1,577,768	1,373,829
Net revenue	1,512,394	1,431,623	3,005,075	2,785,030
Cost of sales product sales (exclusive of depreciation shown separately below)	441,394	425,393	878,049	847,410
Cost of sales service revenue (exclusive of depreciation shown separately below)	343,429	293,206	678,502	547,883
Gross profit	727,571	713,024	1,448,524	1,389,737
Selling and marketing expense	346,291	323,585	677,669	630,533
General and administrative expense	205,949	188,315	408,944	362,652
Other operating expense	27,968	27,266	58,383	54,843
Amortization of non-cash marketing	23,951	9,532	24,458	17,996
Amortization of intangibles	30,382	45,297	60,610	96,987
Depreciation	38,659	37,521	76,506	76,339
Operating income	54,371	81,508	141,954	150,387
Other income (expense):				
Interest income	18,576	18,947	37,867	37,337
Interest expense	(15,599)	(15,763)	(30,615)	(30,831)
Equity in income of unconsolidated affiliates	6,636	8,103	14,483	17,272
Other income	6,901	6,760	7,582	2,461
Total other income, net	16,514	18,047	29,317	26,239
Earnings from continuing operations before income taxes and minority interest	70,885	99,555	171,271	176,626
Income tax provision	(23,855)	(42,420)	(62,140)	(74,728)
Minority interest in losses of consolidated subsidiaries	353	794	240	671
Earnings from continuing operations	47,383	57,929	109,371	102,569
Gain on sale of discontinued operations, net of tax	35,081		35,081	
Income (loss) from discontinued operations, net of tax	13,508	(4,121)	13,611	(1,578)
Net earnings available to common shareholders	$ 95,972	$ 53,808	$ 158,063	$ 100,991
Earnings per share from continuing operations:				
Basic earnings per share	$ 0.16	$ 0.19	$ 0.38	$ 0.32
Diluted earnings per share	$ 0.16	$ 0.18	$ 0.36	$ 0.31
Net earnings per share available to common shareholders:				
Basic earnings per share	$ 0.33	$ 0.17	$ 0.55	$ 0.32
Diluted earnings per share	$ 0.32	$ 0.17	$ 0.52	$ 0.31

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

IAC/INTERACTIVECORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(unaudited)	(audited)
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,025,699	$ 1,428,140
Restricted cash and cash equivalents	24,626	27,855
Marketable securities	785,290	897,742
Accounts receivable, net of allowance of $24,099 and $24,055, respectively	459,512	487,149
Loans held for sale, net	219,553	345,896
Inventories	347,646	325,976
Deferred income taxes	46,751	32,435
Prepaid and other current assets	195,464	412,191
Total current assets	3,104,541	3,957,384
Property, plant and equipment, net	622,666	594,536
Goodwill	7,025,743	6,849,976
Intangible assets, net	1,406,757	1,463,972
Long-term investments	583,052	168,791
Other non-current assets	179,372	154,115
TOTAL ASSETS	$ 12,922,131	$ 13,188,774
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term obligations and short-term borrowings	$ 245,849	$ 357,679
Accounts payable, trade	223,745	254,508
Accounts payable, client accounts	365,539	304,800
Deferred revenue	171,163	147,120
Income taxes payable	23,227	518,806
Accrued expenses and other current liabilities	590,139	678,268
Total current liabilities	1,619,662	2,261,181
Long-term obligations, net of current maturities	811,827	856,408
Income taxes payable	226,354	
Other long-term liabilities	133,934	147,317
Deferred income taxes	977,012	1,129,994
Minority interest	26,449	24,881
SHAREHOLDERS EQUITY:		
Preferred stock $.01 par value; authorized 100,000,000 shares; 758 and 846 shares, respectively, issued and outstanding		
Common stock $.001 par value; authorized 1,600,000,000 shares; issued 413,248,788 and 410,485,690 shares, respectively, and outstanding 262,434,824 and 267,232,782 shares, including 210,056 and 231,204 shares of restricted stock, respectively	413	410
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	14,717,876	14,636,478
Retained earnings	899,471	320,711
Accumulated other comprehensive income	62,469	76,505
Treasury stock 150,813,964 and 143,252,908 shares, respectively	(6,548,370)	(6,260,145)
Note receivable from key executive for common stock issuance	(4,998)	(4,998)
Total shareholders equity	9,126,893	8,768,993
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 12,922,131	$ 13,188,774

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

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

	Total	Preferred Stock $.01 Par Value $	Shares	Common Stock $.001 Par Value $	Shares	Class B Convertible Common Stock $.001 Par Value $	Shares	Additional Paid in Capital	Retained Earnings	Accum Other Comp. Income	Treasury Stock	Note Receivable from Key Executive for Common Stock Issuance
	(In thousands)											
Balance as of December 31, 2006	$ 8,768,993	$	1	$ 410	410,486	$ 32	32,315	$ 14,636,478	$ 320,711	$ 76,505	$ (6,260,145)	$ (4,998)
Comprehensive income:												
Net earnings for the six months ended June 30, 2007	158,063								158,063			
Foreign currency translation	(6,966)									(6,966)		
Unrealized losses on available for sale securities	(4,809)									(4,809)		
Net losses on derivative contracts	(2,261)									(2,261)		
Comprehensive income	144,027											
Non-cash compensation expense	50,470							50,470				
Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other	12,700			3	2,482			12,697				
Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other	8,414							8,414				
Issuance of common stock upon conversion of convertible notes and exercise of certain warrants	9,817				281			9,817				
Purchase of treasury stock	(288,225)										(288,225)	
Cumulative effect of adoption of FIN 48	420,697								420,697			
Balance as of June 30, 2007	$ 9,126,893	$	1	$ 413	413,249	$ 32	32,315	$ 14,717,876	$ 899,471	$ 62,469	$ (6,548,370)	$ (4,998)

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

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

	Six Months Ended June 30, 2007	2006
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings available to common shareholders	$ 158,063	$ 100,991
Less: (income) loss from discontinued operations, net of tax	(48,692)	1,578
Earnings from continuing operations	109,371	102,569
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Depreciation and amortization of intangibles	137,116	173,326
Non-cash compensation expense	51,084	52,680
Amortization of cable distribution fees	2,452	41,068
Amortization of non-cash marketing	24,458	17,996
Deferred income taxes	(4,307)	18,940
Gain on sales of loans held for sale	(95,704)	(116,557)
Equity in income of unconsolidated affiliates, net of dividends	(9,130)	(17,272)
Minority interest in losses of consolidated subsidiaries	(240)	(671)
Increase in cable distribution fees		(21,772)
Changes in current assets and liabilities:		
Accounts receivable	20,296	30,373
Origination of loans held for sale	(3,820,710)	(4,203,432)
Proceeds from sales of loans held for sale	4,040,954	4,334,404
Inventories	(25,600)	(24,610)
Prepaid and other current assets	(10,522)	(5,450)
Accounts payable, income taxes payable and other current liabilities	(85,641)	(79,394)
Deferred revenue	25,258	23,614
Funds collected by Ticketmaster on behalf of clients, net	32,376	55,095
Other, net	15,001	22,064
Net cash provided by operating activities attributable to continuing operations	406,512	402,971
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(185,506)	(57,881)
Capital expenditures	(104,349)	(110,228)
Purchases of marketable securities	(525,558)	(443,413)
Proceeds from sales and maturities of marketable securities	646,488	836,917
(Increase) decrease in long-term investments	(221,610)	1,475
Other, net	14,643	(6,171)
Net cash (used in) provided by investing activities attributable to continuing operations	(375,892)	220,699
Cash flows from financing activities attributable to continuing operations:		
Borrowing under warehouse lines of credit	3,719,453	4,136,983
Repayments of warehouse lines of credit	(3,845,350)	(4,148,560)
Principal payments on long-term obligations	(20,059)	(11,061)
Purchase of treasury stock	(322,577)	(583,341)
Issuance of common stock, net of withholding taxes	20,730	35,521
Excess tax benefits from stock-based awards	11,240	12,304
Other, net	(1,612)	22,269
Net cash used in financing activities attributable to continuing operations	(438,175)	(535,885)
Total cash (used in) provided by continuing operations	(407,555)	87,785
Net cash used in operating activities attributable to discontinued operations	(1,857)	(32,439)
Net cash (used in) provided by investing activities attributable to discontinued operations	(739)	507
Net cash used in financing activities attributable to discontinued operations	(460)	(660)
Total cash used in discontinued operations	(3,056)	(32,592)
Effect of exchange rate changes on cash and cash equivalents	8,170	18,393
Net (decrease) increase in cash and cash equivalents	(402,441)	73,586
Cash and cash equivalents at beginning of period	1,428,140	987,080
Cash and cash equivalents at end of period	$ 1,025,699	$ 1,060,666

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 is an interactive conglomerate operating more than 60 diversified brands in sectors being transformed by the internet, online and offline...our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. Our operating businesses provide products and services through a diversified portfolio of specialized and global brands and are organized into the following sectors:

- Retailing;
- Transactions, which includes the Ticketmaster, LendingTree, Real Estate and ServiceMagic reporting segments;
- Media & Advertising; and
- Membership & Subscriptions, which includes the Interval, Match and Entertainment reporting segments.

IAC businesses 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.

Beginning with the first quarter of 2007, the Services sector has been renamed Transactions to more clearly reflect the nature of the activities of the businesses within that sector and several segment names were changed to identify the primary brand name within those segments, where practical. These name changes did not affect the composition of our reporting segments and did not have any impact on our financial reporting. Following the sale of the Company s German TV and internet retailer Home Shopping Europe GmbH & Co. KG, and its affiliated station HSE24 (HSE), on June 19, 2007, the segment formerly known as Retailing U.S. has been renamed Retailing.

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 Securities and Exchange Commission (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, 2006.

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 these estimates.

Significant estimates underlying the accompanying consolidated financial statements include the inventory carrying adjustment, sales returns and other revenue allowances, allowance for doubtful accounts, recoverability of long-lived assets, including goodwill and intangibles, deferred income taxes, including related valuation allowances, various other allowances, reserves and accruals, and assumptions related to the determination of stock-based compensation.

Recent Accounting Pronouncements

On February 15, 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities 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. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, subject to certain conditions. Effects of the fair value measurements shall be reported in earnings. Fair value measurements relating to SFAS No. 159 cannot be applied retrospectively. The Company expects to adopt SFAS No. 159 effective January 1, 2008 and is currently assessing its impact on the Company s consolidated financial position, results of operations and cash flows.

On September 15, 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements and the effect of the measurements on earnings or changes in net assets. Among other things, SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier adoption is permitted. The cumulative effect of applying the provisions of SFAS No. 157 will be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The Company expects to adopt SFAS No. 157 effective January 1, 2008 and is currently assessing its impact on the Company s consolidated financial position, results of operations and cash flows.

Reclassifications

The accompanying consolidated statements of operations for the three and six months ended June 30, 2006 and cash flows for the six months ended June 30, 2006 have been reclassified to present HSE, which was previously reported in IAC s Retailing sector, PRC, which was previously reported in IAC s Transactions sector, and Quiz TV Limited and iBuy, which were previously reported in IAC s Emerging Businesses group, as discontinued operations. See Note 7 for a further description of discontinued operations. Due to the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), $238.7 million of income tax liabilities at January 1, 2007 were reclassified from current to non-current income taxes payable as payment was not expected within twelve months of January 1, 2007. In addition, certain other prior period amounts have been reclassified to conform with the current period presentation.

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 June 30, 2007 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 second quarter of 2007 was to reduce expense by $7.0 million.

NOTE 3 GOODWILL AND INTANGIBLE ASSETS

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

	June 30, 2007	December 31, 2006
Goodwill	$ 7,025,743	$ 6,849,976
Intangible assets with indefinite lives	1,117,444	1,117,444
Intangible assets with definite lives, net	289,313	346,528
Total goodwill and intangible assets, net	$ 8,432,500	$ 8,313,948

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At June 30, 2007, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted-Average Amortization Life (Years)
Purchase agreements	$ 309,958	$ (226,050)	$ 83,908	6.8
Distribution agreements	207,924	(187,012)	20,912	4.2
Technology	204,832	(135,532)	69,300	4.5
Customer lists	198,294	(112,123)	86,171	7.7
Merchandise agreements	38,457	(34,124)	4,333	4.7
Other	78,255	(53,566)	24,689	4.4
Total	$ 1,037,720	$ (748,407)	$ 289,313	

At December 31, 2006, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted-Average Amortization Life (Years)
Purchase agreements	$ 308,242	$ (203,857)	$ 104,385	6.8
Distribution agreements	208,164	(183,362)	24,802	4.2
Technology	204,832	(120,918)	83,914	4.5
Customer lists	198,294	(102,216)	96,078	7.7
Merchandise agreements	38,457	(31,154)	7,303	4.7
Other	75,234	(45,188)	30,046	4.5
Total	$ 1,033,223	$ (686,695)	$ 346,528	

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2006 balances, such amortization for the next five years and thereafter is estimated to be as follows (in thousands):

Years Ending December 31,	
2007	$ 109,930
2008	84,846
2009	64,272
2010	42,361
2011	24,916
2012 and thereafter	20,203
	$ 346,528

The following table presents the balance of goodwill by segment, including changes in the carrying amount of goodwill, for the six months ended June 30, 2007 (in thousands):

	Balance as of January 1, 2007	Additions	(Deductions)	Foreign Exchange Translation	Balance as of June 30, 2007
Retailing	$ 2,932,298	$ 45	$ (264)	$	$ 2,932,079
Transactions:					
Ticketmaster	1,078,346	35,079	(1,515)	5,591	1,117,501
LendingTree	514,489		(549)		513,940
Real Estate	69,029		(70)		68,959
ServiceMagic	100,389		(17)		100,372
Total Transactions	1,762,253	35,079	(2,151)	5,591	1,800,772
Media & Advertising	1,352,764	12,884	(8,436)		1,357,212
Membership & Subscriptions:					
Interval	473,931	104,869			578,800
Match	232,222	9,153	(8,411)	2,077	235,041
Entertainment	66,703	949			67,652
Total Membership & Subscriptions	772,856	114,971	(8,411)	2,077	881,493
Emerging Businesses	29,805	24,382			54,187
Total	$ 6,849,976	$ 187,361	$ (19,262)	$ 7,668	$ 7,025,743

Additions principally relate to acquisitions. Deductions principally relate to the establishment of a deferred tax asset related to acquired tax attributes, 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, and adjustments to the carrying value of goodwill based upon the finalization of the valuation of goodwill and intangible assets and their related deferred tax impacts.

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

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

	June 30, 2007	December 31, 2006
Computer and broadcast equipment	$ 786,361	$ 722,077
Buildings and leasehold improvements	322,204	158,889
Furniture and other equipment	129,701	118,479
Projects in progress	55,292	193,430
Land	19,070	18,887
	1,312,628	1,211,762
Less: accumulated depreciation and amortization	(689,962)	(617,226)
Total property, plant and equipment, net	$ 622,666	$ 594,536

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. As described in Note 7, HSE, PRC, iBuy, Quiz TV Limited, TV Travel Shop, Styleclick and ECS are presented as discontinued operations and, accordingly, are excluded from the tables below.

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(In thousands)			
Revenue:				
Retailing	$ 701,385	$ 696,179	$ 1,386,721	$ 1,369,436
Transactions:				
Ticketmaster	302,750	295,103	612,610	540,820
LendingTree	98,604	107,938	198,602	221,871
Real Estate	15,358	15,025	28,589	26,454
ServiceMagic	25,268	15,962	46,862	29,934
Intra-sector elimination	(91)		(91)	
Total Transactions	441,889	434,028	886,572	819,079
Media & Advertising	174,023	131,272	342,077	248,898
Membership & Subscriptions:				
Interval	88,496	74,067	177,479	155,429
Match	86,601	78,290	169,002	151,560
Entertainment	18,927	19,540	39,628	43,433
Intra-sector elimination	(821)	(775)	(847)	(869)
Total Membership & Subscriptions	193,203	171,122	385,262	349,553
Emerging Businesses	5,372	498	8,895	892
Inter-sector elimination	(3,478)	(1,476)	(4,452)	(2,828)
Total	$ 1,512,394	$ 1,431,623	$ 3,005,075	$ 2,785,030

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(In thousands)			
Operating Income (Loss):				
Retailing	$ 34,617	$ 49,889	$ 69,189	$ 92,511
Transactions:				
Ticketmaster	52,365	68,863	117,160	127,800
LendingTree	(1,312)	9,772	(1,185)	18,822
Real Estate	(8,734)	(6,838)	(16,706)	(13,565)
ServiceMagic	6,177	3,465	11,477	5,713
Total Transactions	48,496	75,262	110,746	138,770
Media & Advertising	(10,702)	(11,349)	(191)	(17,764)
Membership & Subscriptions:				
Interval	29,962	22,549	64,662	52,682
Match	12,147	16,626	20,331	18,643
Entertainment	(14,158)	(17,890)	(27,890)	(32,908)
Total Membership & Subscriptions	27,951	21,285	57,103	38,417
Emerging Businesses	2,368	(4,321)	(675)	(8,409)
Corporate and other	(48,359)	(49,258)	(94,218)	(93,138)
Total	$ 54,371	$ 81,508	$ 141,954	$ 150,387

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	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
	(In thousands)			
Operating Income Before Amortization(a):				
Retailing	$ 38,403	$ 60,503	$ 78,224	$ 119,470
Transactions:				
Ticketmaster	59,032	75,899	130,680	141,733
LendingTree	1,667	14,779	4,780	27,667
Real Estate	(5,572)	(4,574)	(12,129)	(9,649)
ServiceMagic	7,102	4,410	13,324	7,602
Total Transactions	62,229	90,514	136,655	167,353
Media & Advertising	11,740	10,732	28,937	22,329
Membership & Subscriptions:				
Interval	36,275	28,854	77,280	65,292
Match	19,580	17,261	27,978	23,247
Entertainment	(13,472)	(16,602)	(26,519)	(30,332)
Total Membership & Subscriptions	42,383	29,513	78,739	58,207
Emerging Businesses	2,909	(4,159)	281	(8,089)
Corporate and other	(22,102)	(22,052)	(44,730)	(41,220)
Total	$ 135,562	$ 165,051	$ 278,106	$ 318,050

(a) Operating Income Before Amortization 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 accordance with generally accepted accounting principles, and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measure.

The following table reconciles Operating Income Before Amortization to operating income and net earnings available to common shareholders.

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(In thousands)			
Operating Income Before Amortization	$ 135,562	$ 165,051	$ 278,106	$ 318,050
Non-cash compensation expense	(26,858)	(28,714)	(51,084)	(52,680)
Amortization of non-cash marketing	(23,951)	(9,532)	(24,458)	(17,996)
Amortization of intangibles	(30,382)	(45,297)	(60,610)	(96,987)
Operating income	54,371	81,508	141,954	150,387
Interest income	18,576	18,947	37,867	37,337
Interest expense	(15,599)	(15,763)	(30,615)	(30,831)
Equity in income of unconsolidated affiliates	6,636	8,103	14,483	17,272
Other income	6,901	6,760	7,582	2,461
Income tax provision	(23,855)	(42,420)	(62,140)	(74,728)
Minority interest in losses of consolidated subsidiaries	353	794	240	671
Gain on sale of discontinued operations, net of tax	35,081		35,081	
Income (loss) from discontinued operations, net of tax	13,508	(4,121)	13,611	(1,578)
Net earnings available to common shareholders	$ 95,972	$ 53,808	$ 158,063	$ 100,991

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 June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(In thousands)			
Revenue				
United States	$ 1,361,067	$ 1,304,987	$ 2,700,849	$ 2,544,047
All other countries	151,327	126,636	304,226	240,983
	$ 1,512,394	$ 1,431,623	$ 3,005,075	$ 2,785,030

	June 30, 2007	December 31, 2006
	(In thousands)	
Long-lived assets		
United States	$ 608,362	$ 582,646
All other countries	28,357	28,094
	$ 636,719	$ 610,740

NOTE 6 RECONCILIATION OF NON-GAAP MEASURE

The following table reconciles 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 June 30, 2007:				
	Operating Income Before Amortization	**Non-cash compensation expense(A)**	**Amortization of non-cash marketing**	**Amortization of intangibles**	**Operating income (loss)**
Retailing	$ 38.4	$ (0.1)	$ (0.4)	$ (3.2)	$ 34.6
Transactions:					
Ticketmaster	59.0			(6.7)	52.4
LendingTree	1.7	(0.1)		(2.9)	(1.3)
Real Estate	(5.6)			(3.1)	(8.7)
ServiceMagic	7.1	(0.2)		(0.8)	6.2
Total Transactions	62.2	(0.3)		(13.4)	48.5
Media & Advertising	11.7		(16.3)	(6.2)	(10.7)
Membership & Subscriptions:					
Interval	36.3			(6.3)	30.0
Match	19.6		(7.2)	(0.2)	12.1
Entertainment	(13.5)			(0.7)	(14.2)
Total Membership & Subscriptions	42.4		(7.2)	(7.2)	28.0
Emerging Businesses	2.9	(0.2)		(0.3)	2.4
Corporate and other	(22.1)	(26.3)			(48.4)
Total	$ 135.6	$ (26.9)	$ (24.0)	$ (30.4)	54.4
Other income, net					16.5
Earnings from continuing operations before income taxes and minority interest					70.9
Income tax provision					(23.9)
Minority interest in losses of consolidated subsidiaries					0.4
Earnings from continuing operations					47.4
Gain on sale of discontinued operations, net of tax					35.1
Income from discontinued operations, net of tax					13.5
Net earnings available to common shareholders					$ 96.0

(A) Non-cash compensation expense includes $2.1 million, $2.3 million, 22.5 million and $0.1 million which are included in cost of sales, selling and marketing expense, general and administrative expense and other operating expense, respectively, in the accompanying consolidated statement of operations.

	For the three months ended June 30, 2006:				
	Operating Income Before Amortization	**Non-cash compensation expense(B)**	**Amortization of non-cash marketing**	**Amortization of intangibles**	**Operating income (loss)**
Retailing	$ 60.5	$ (1.3)	$	$ (9.3)	$ 49.9
Transactions:					
Ticketmaster	75.9			(7.0)	68.9
LendingTree	14.8			(5.0)	9.8
Real Estate	(4.6)			(2.3)	(6.8)
ServiceMagic	4.4	(0.2)		(0.8)	3.5
Total Transactions	90.5	(0.1)		(15.1)	75.3
Media & Advertising	10.7		(9.5)	(12.5)	(11.3)
Membership & Subscriptions:					
Interval	28.9			(6.3)	22.5
Match	17.3			(0.6)	16.6
Entertainment	(16.6)			(1.3)	(17.9)
Total Membership & Subscriptions	29.5			(8.2)	21.3
Emerging Businesses	(4.2)			(0.1)	(4.3)
Corporate and other	(22.1)	(27.2)			(49.3)
Total	$ 165.1	$ (28.7)	$ (9.5)	$ (45.3)	81.5
Other income, net					18.0
Earnings from continuing operations before income taxes and minority interest					99.6
Income tax provision					(42.4)
Minority interest in losses of consolidated subsidiaries					0.8
Earnings from continuing operations					57.9
Loss from discontinued operations, net of tax					(4.1)
Net earnings available to common shareholders					$ 53.8

(B) Non-cash compensation expense includes $2.1 million, $2.4 million and $24.2 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.

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	For the six months ended June 30, 2007:				
	Operating Income Before Amortization	**Non-cash compensation expense(C)**	**Amortization of non-cash marketing**	**Amortization of intangibles**	**Operating income (loss)**
Retailing	$ 78.2	$ (0.7)	$ (0.4)	$ (7.9)	$ 69.2
Transactions:					
Ticketmaster	130.7			(13.5)	117.2
LendingTree	4.8	(0.2)		(5.8)	(1.2)
Real Estate	(12.1)	(0.1)		(4.5)	(16.7)
ServiceMagic	13.3	(0.3)		(1.5)	11.5
Total Transactions	136.7	(0.6)		(25.3)	110.7
Media & Advertising	28.9		(16.8)	(12.3)	(0.2)
Membership & Subscriptions:					
Interval	77.3			(12.6)	64.7
Match	28.0		(7.2)	(0.4)	20.3
Entertainment	(26.5)			(1.4)	(27.9)
Total Membership & Subscriptions	78.7		(7.2)	(14.4)	57.1
Emerging Businesses	0.3	(0.3)		(0.7)	(0.7)
Corporate and other	(44.7)	(49.5)			(94.2)
Total	$ 278.1	$ (51.1)	$ (24.5)	$ (60.6)	142.0
Other income, net					29.3
Earnings from continuing operations before income taxes and minority interest					171.3
Income tax provision					(62.1)
Minority interest in losses of consolidated subsidiaries					0.2
Earnings from continuing operations					109.4
Gain on sale of discontinued operations, net of tax					35.1
Income from discontinued operations, net of tax					13.6
Net earnings available to common shareholders					$ 158.1

(C) Non-cash compensation expense includes $3.9 million, $4.3 million, 42.8 million and $0.1 million which are included in cost of sales, selling and marketing expense, general and administrative expense and other operating expense, respectively, in the accompanying consolidated statement of operations.

	For the six months ended June 30, 2006:				
	Operating Income Before Amortization	Non-cash compensation expense(D)	Amortization of non-cash marketing	Amortization of intangibles	Operating income (loss)
Retailing	$ 119.5	$ (2.2)	$	$ (24.8)	$ 92.5
Transactions:					
Ticketmaster	141.7			(13.9)	127.8
LendingTree	27.7	1.2		(10.0)	18.8
Real Estate	(9.6)	0.6		(4.5)	(13.6)
ServiceMagic	7.6	(0.3)		(1.6)	5.7
Total Transactions	167.4	1.5		(30.1)	138.8
Media & Advertising	22.3		(15.0)	(25.1)	(17.8)
Membership & Subscriptions:					
Interval	65.3			(12.6)	52.7
Match	23.2		(3.0)	(1.6)	18.6
Entertainment	(30.3)			(2.6)	(32.9)
Total Membership & Subscriptions	58.2		(3.0)	(16.8)	38.4
Emerging Businesses	(8.1)	(0.1)		(0.2)	(8.4)
Corporate and other	(41.2)	(51.9)			(93.1)
Total	$ 318.1	$ (52.7)	$ (18.0)	$ (97.0)	150.4
Other income, net					26.2
Earnings from continuing operations before income taxes and minority interest					176.6
Income tax provision					(74.7)
Minority interest in losses of consolidated subsidiaries					0.7
Earnings from continuing operations					102.6
Loss from discontinued operations, net of tax					(1.6)
Net earnings available to common shareholders					$ 101.0

(D) Non-cash compensation expense includes $4.1 million, $4.5 million, $44.0 million and $0.1 million which are included in cost of sales, selling and marketing expense, general and administrative expense and other operating expense, respectively, in the accompanying consolidated statement of operations.

NOTE 7 DISCONTINUED OPERATIONS

During the second quarter of 2006, Quiz TV Limited, previously reported in IAC s Emerging Businesses group, ceased operations. iBuy, also previously reported in IAC s Emerging Businesses group, was classified as held for sale during the fourth quarter of 2006 and was subsequently sold during the second quarter of 2007. Additionally, on November 29, 2006, IAC sold PRC, previously reported in the Teleservices segment of IAC s Transactions sector, for approximately $286.5 million which resulted in a pre-tax gain of $66.3 million and an after-tax gain of $9.6 million. On June 19, 2007, IAC sold HSE, previously reported in the International segment of IAC s Retailing sector, for approximately $216.5 million, which resulted in a pre-tax gain of $52.0 million and an after-tax gain of $35.1 million. See Note 10 for a further description of the sale of HSE. Accordingly, Quiz TV Limited, iBuy and HSE are presented as discontinued operations for all periods presented, and PRC is presented as discontinued operations in the statements of operations for the three and six months ended June 30, 2006. TV Travel Shop, Styleclick and ECS are also presented as discontinued operations for all periods presented.

The net revenue and net earnings, net of the effect of any minority interest, for the aforementioned discontinued operations for the applicable periods were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net revenue	$ 86,762	$ 185,350	$ 192,679	$ 386,119
Earnings (loss) before income taxes and minority interest	$ 11,006	$ (2,077)	$ 12,269	$ 2,534
Income tax benefit (provision)	2,502	(2,044)	1,342	(4,112)
Net earnings (loss)	$ 13,508	$ (4,121)	$ 13,611	$ (1,578)

The assets and liabilities of HSE at December 31, 2006 have been classified in the accompanying consolidated balance sheet as Assets held for sale (which is included in Prepaid and other current assets) and Liabilities held for sale (which is included in Accrued expenses and other current liabilities). Such net assets held for sale consist of the following (in thousands):

	December 31, 2006
Current assets	$ 81,834
Goodwill	122,721
Other non-current assets	22,325
Total assets held for sale	226,880
Current liabilities	(56,353)
Other long-term liabilities	(7,992)
Total liabilities held for sale	(64,345)
Total net assets held for sale	$ 162,535

NOTE 8 EARNINGS PER SHARE

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

	Three months ended June 30,			
	2007		2006	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Net earnings from continuing operations available to common shareholders	$ 47,383	$ 47,383	$ 57,929	$ 57,929
Interest expense on Convertible Notes, net of tax(a)(b)				
Net earnings from continuing operations available to common shareholders after assumed conversions of Convertible Notes, if applicable	47,383	47,383	57,929	57,929
Income (loss) from discontinued operations, net of tax	48,589	48,589	(4,121)	(4,121)
Net earnings available to common shareholders	$ 95,972	$ 95,972	$ 53,808	$ 53,808
Denominator:				
Basic shares outstanding	287,392	287,392	311,944	311,944
Dilutive securities including stock options, warrants and restricted stock and share units		15,172		12,353
Denominator for earnings per share weighted average shares(c)(d)	287,392	302,564	311,944	324,297
Earnings (loss) per share:				
Earnings per share from continuing operations	$ 0.16	$ 0.16	$ 0.19	$ 0.18
Discontinued operations, net of tax	0.17	0.16	(0.02)	(0.01)
Earnings per share from net earnings	$ 0.33	$ 0.32	$ 0.17	$ 0.17

	Six months ended June 30, 2007 Basic	Diluted	2006 Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Net earnings from continuing operations available to common shareholders	$ 109,371	$ 109,371	$ 102,569	$ 102,569
Interest expense on Convertible Notes, net of tax(a)(b)				
Net earnings from continuing operations available to common shareholders after assumed conversions of Convertible Notes, if applicable	109,371	109,371	102,569	102,569
Income (loss) from discontinued operations, net of tax	48,692	48,692	(1,578)	(1,578)
Net earnings available to common shareholders	$ 158,063	$ 158,063	$ 100,991	$ 100,991
Denominator:				
Basic shares outstanding	287,292	287,292	315,667	315,667
Dilutive securities including stock options, warrants and restricted stock and share units		16,029		15,118
Denominator for earnings per share weighted average shares(c)(d)	287,292	303,321	315,667	330,785
Earnings per share:				
Earnings per share from continuing operations	$ 0.38	$ 0.36	$ 0.32	$ 0.31
Discontinued operations, net of tax	0.17	0.16	0.00	0.00
Earnings per share from net earnings	$ 0.55	$ 0.52	$ 0.32	$ 0.31

(a) For the three and six months ended June 30, 2007, approximately 0.5 million and 0.6 million weighted average common shares, respectively, related to the assumed conversion of the Company s Convertible Notes were excluded from the calculation of diluted earnings per share, because the assumed conversion would have been 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 and six months ended June 30, 2006, approximately 1.7 million and 1.8 million weighted average common shares, respectively, related to the assumed conversion of the Company s Convertible Notes were excluded from the calculation of diluted earnings per share, because the assumed conversion would have been 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.

(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 and six months ended June 30, 2007, approximately 17.9 million and 13.1 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.

(d) 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 and six months ended June 30, 2006, approximately 37.4 million and 33.8 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.

NOTE 9 EQUITY INVESTMENTS IN UNCONSOLIDATED AFFILIATES

At June 30, 2007 and December 31, 2006, the Company s equity investments in unconsolidated affiliates totaled $372.3 million and $117.2 million, respectively, and are included in Long-term investments in the accompanying consolidated balance sheets.

During the second quarter of 2007, the Company made investments which totaled $247.8 million in entities that are accounted for under the equity method. This includes the conversion of a convertible note which was carried at $26.5 million. The most significant investment made by the Company was in Front Line Management Group, Inc. (Front Line). During the third quarter of 2007, the Company agreed to sell a portion of its investment in Front Line to Warner Music Group at the same per share price that the Company paid to acquire its holdings in Front Line. This sale is expected to close during the third quarter.

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

	Six months ended June 30,	
	2007	**2006**
Net sales	$ 516,012	$ 424,873
Gross profit	196,990	181,289
Net income	35,649	46,986

NOTE 10 DERIVATIVE INSTRUMENTS

Derivatives Related to Loans Held for Sale

The Company is exposed to certain risks in connection with its mortgage banking operations which are conducted under two brand names, LendingTree Loans and Home Loan Center (herein collectively referred to as LendingTree Loans). LendingTree Loans is exposed to interest rate risk for loans it originates until those loans are sold in the secondary market (loans held for sale). The fair value of loans held for sale is subject to change primarily due to changes in market interest rates. LendingTree Loans hedges 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 derivatives for risk management purposes, effective April 1, 2007 it no longer designates these derivative instruments as hedges and thus the relationships no longer qualify for the hedge accounting provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133).

Prior to April 1, 2007, the fair value of loans held for sale was determined using current secondary market prices for loans with similar coupons, maturities and credit quality and the carrying value of the loans held for sale and the related derivative instruments were adjusted for changes in fair value during the time the hedge was deemed to be highly effective. The effective portion of the derivative gain or loss as well as the offsetting hedged item loss or gain attributable to the hedged risk were recognized in the statement of operations as a component of revenue. The net of these adjustments represented the ineffective portion of highly effective hedges which was also recorded as a component of revenue. If it was determined that the hedging relationship was no longer highly effective, hedge accounting was discontinued. 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 derivative instruments continue to be recognized in current earnings as a component of revenue. The fair value of the derivative instruments is recorded in Prepaid and other current assets and/or Accrued expenses and other current liabilities in the accompanying consolidated balance sheets. During the first quarter of 2007, the Company recognized losses of less than $0.1 million related to hedge ineffectiveness. For the three and six months ended June 30, 2007, the Company recognized gains of $0.9 million and $0.5 million, respectively, related to the changes in fair value of derivative instruments when hedge accounting was discontinued. For the three and six months ended June 30, 2006, the Company recognized losses in both periods of $0.2 million related to hedge ineffectiveness and losses of $0.2 million and gains of $0.3 million, respectively, related to changes in the fair value of derivative instruments when hedge accounting was discontinued.

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 in accordance with SEC Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments, and SFAS No. 133 and 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 earnings. 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. The net change in the fair value of these derivative instruments for the three and six months ended June 30, 2007 resulted in gains of $0.4 million and $0.1 million, respectively, which have been recognized in the accompanying consolidated statements of operations. The net change in the fair value of these derivative instruments for the three and six months ended June 30, 2006 resulted in losses of $0.6 million and gains of $1.0 million, respectively, and have been recognized in the accompanying consolidated statements of operations. 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 June 30, 2007, there was $493.2 million of IRLC s notional value outstanding.

Derivatives Related to Long-term Debt

IAC s objective in managing its exposure to interest rate risk on its long-term debt is to maintain its mix of floating rate and fixed rate debt within a certain range. IAC s risk management policy enables IAC to manage its exposure to the impact of interest rate changes. As such, from time to time, IAC may enter into interest rate swap transactions designated as fair value hedges with financial institutions to modify the interest characteristics on a portion of its long-term debt. In 2004 and 2003, the Company entered into various interest rate swap agreements related to a portion of its 7.00% Senior Notes due January 15, 2013 (the 2002 Senior Notes), which effectively changed the Company s interest rate exposure on a portion of the debt from fixed to floating. As of June 30, 2007, of the $750 million total principal amount of the 2002 Senior Notes, the interest rate is fixed on $400 million and the balance of $350 million has been swapped to floating based on the spread over 6-month LIBOR. The changes in fair value of the interest rate swaps at June 30, 2007 and 2006 resulted in losses of $18.2 million and $23.7 million, respectively. The fair value of the contracts has been recorded in the accompanying consolidated balance sheets in Other long-term liabilities with a corresponding offset to the carrying value of the related debt. The derivative gain or loss in the period of change and the offsetting hedged item loss or gain attributable to the hedged risk are recognized in the consolidated statement of operations.

Derivatives Created in the Spin-Off

As a result of the IAC Search & Media, Inc. (formerly Ask Jeeves, Inc.) acquisition, upon conversion of the Ask Zero Coupon Convertible Subordinated Notes due June 1, 2008 (the Convertible Notes), holders would receive shares of IAC common stock or the cash equivalent of such shares, at the Company s option. Following the Expedia spin-off on August 9, 2005, IAC became obligated to deliver shares of both IAC common stock and Expedia common stock to the holders upon conversion of the Convertible Notes. IAC and Expedia may elect to deliver the cash equivalent in lieu of such shares upon conversion of the Convertible Notes. This obligation represents a derivative liability in IAC s accompanying consolidated balance sheets because it is not denominated solely in shares of IAC common stock. This derivative liability was valued at $16.4 million at June 30, 2007. Under the separation agreement related to the Expedia spin-off, Expedia contractually assumed the obligation to deliver shares of Expedia common stock or the cash equivalent of such shares to IAC upon conversion by the holders of the Convertible Notes. This represents a derivative asset in IAC s accompanying consolidated balance sheet valued at $13.8 million at June 30, 2007. Both of these derivatives are maintained at fair value each reporting period with any changes in fair value reflected in the consolidated statement of operations. The net change in the fair value of these derivatives for the three and six months ended June 30, 2007 resulted in net gains of $1.8 million and $1.5 million, respectively, which have been recognized in Other income in the accompanying consolidated statements of operations. The net change in the fair value of these derivatives for the three and six months ended June 30, 2006 resulted in net gains of $4.5 million and net losses of $0.8 million, respectively, which have been recognized in Other income in the accompanying consolidated statements of operations. At June 30, 2007, the derivative asset related to the Convertible Notes is recorded in Prepaid and other current assets and the derivative liability related to the Convertible Notes is recorded in Accrued expenses and other current liabilities in the accompanying consolidated balance sheets. At June 30, 2007, the principal amount of the Convertible Notes outstanding was $12.6 million.

Derivative Created in the Sale of HSE

On June 19, 2007, in consideration for the sale of HSE to Arcandor AG (ARO), formerly known as KarstadtQuelle AG, IAC received approximately 5.5 million shares of ARO stock valued at 141 million (the ARO Shares), plus additional consideration in the form of a derivative asset, that has a value of up to 54 million within three years. The ARO stock is a marketable security that will be accounted for as an available-for-sale investment according to the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The ultimate value of the derivative asset is dependent, in part, upon the average value of the ARO Shares for the 90 days preceding June 19, 2010 (the Average Value). To the extent that the Average Value of the ARO Shares 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 of the ARO Shares is equal to or greater than 195 million, IAC will receive no additional consideration. To the extent that the Average Value of the ARO Shares is between 141 million and 195 million, IAC will receive a pro rata portion of the 54 million. If the value of the ARO Shares 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 derivative asset expires without any payment being made. The derivative asset is maintained at fair value each reporting period with any changes in fair value reflected in the consolidated statement of operations. The change in the fair value of this derivative asset for the three and six months ended June 30, 2007 resulted in a gain of $1.9 million for both periods, which has been recognized in Other income in the accompanying consolidated statements of operations. At June 30, 2007, the ARO Shares, valued at $185.0 million, and the derivative asset, valued at $29.3 million, are recorded in Long-term investments and Other non-current assets , respectively, in the accompanying consolidated balance sheet.

Derivatives Related to Foreign Exchange

IAC s objective in managing its foreign exchange risk is to reduce its potential exposure to the changes that exchange rates might have on its earnings, cash flows and financial position. IAC 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, British Pound Sterling and Canadian Dollar. 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 such, from time to time, IAC may enter into forward contracts or swap transactions designated as cash flow hedges with financial institutions to protect against the volatility of future cash flows caused by changes in currency exchange rates in order to reduce, but not always entirely eliminate, the impact of currency exchange rate movements of these local currencies.

During the second quarter of 2003, one of the Company s foreign subsidiaries entered into a five-year foreign exchange forward contract with a notional amount of $38.6 million, which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary s functional currency. This derivative contract was designated as a cash flow hedge for accounting purposes and foreign exchange re-measurement gains and losses related to the contract and liability were recognized each period in the statement of operations and were offsetting. In addition, the remaining effective portion of the derivative gain or loss was recorded in other comprehensive income until the liability was extinguished in June 2007 in connection with the sale of HSE.

NOTE 11 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 June 30, 2007 and December 31, 2006 and for the three and six months ended June 30, 2007 and 2006 for: the guarantor, IAC, on a stand-alone basis; IAC Search & Media on a stand-alone basis; the combined non-guarantor subsidiaries of IAC; and IAC on a consolidated basis.

Balance sheet as of June 30, 2007:

	IAC (In thousands)	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
Current assets	$ 90,990	$ 116,691	$ 2,896,860	$	$ 3,104,541
Property, plant and equipment, net		53,522	569,144		622,666
Goodwill and intangible assets, net		1,683,505	6,748,995		8,432,500
Investment in subsidiaries	13,591,708	1,213,497	11,880,969	(26,686,174)	
Other assets	239,184	8,118	515,122		762,424
Total assets	$13,921,882	$ 3,075,333	$22,611,090	$ (26,686,174)	$ 12,922,131
Current liabilities	$ 28,913	$ 53,879	$ 1,536,870	$	$ 1,619,662
Long-term obligations, net of current maturities	731,765		80,062		811,827
Other liabilities and minority interest	752,764	68,269	542,716		1,363,749
Intercompany liabilities	3,281,547	(182,774)	(3,098,773)		
Interdivisional equity		3,141,988	20,530,110	(23,672,098)	
Shareholders equity	9,126,893	(6,029)	3,020,105	(3,014,076)	9,126,893
Total liabilities and shareholders equity	$ 13,921,882	$ 3,075,333	$22,611,090	$ (26,686,174)	$ 12,922,131

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Balance sheet as of December 31, 2006:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
	(In thousands)				
Current assets	$ 1,182,540	$ 112,513	$ 2,662,331	$	$ 3,957,384
Property, plant and equipment, net		46,927	547,609		594,536
Goodwill and intangible assets, net		1,717,631	6,596,317		8,313,948
Investment in subsidiaries	12,580,625	1,213,669	11,879,869	(25,674,163)	
Other assets	142,315	7,603	172,988		322,906
Total assets	$ 13,905,480	$ 3,098,343	$ 21,859,114	$ (25,674,163)	$ 13,188,774
Current liabilities	$ 28,045	$ 7,658	$ 2,225,478	$	$ 2,261,181
Long-term obligations, net of current maturities	738,316	18,700	99,392		856,408
Other liabilities and minority interest	728,625	100,149	473,418		1,302,192
Intercompany liabilities	3,641,501	(168,663)	(3,472,838)		
Interdivisional equity		3,142,127	20,370,320	(23,512,447)	
Shareholders equity	8,768,993	(1,628)	2,163,344	(2,161,716)	8,768,993
Total liabilities and shareholders equity	$ 13,905,480	$ 3,098,343	$ 21,859,114	$ (25,674,163)	$ 13,188,774

Statement of operations for the three months ended June 30, 2007:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
	(In thousands)				
Net revenue	$	$ 152,121	$ 1,360,273	$	$ 1,512,394
Operating expenses		(164,547)	(1,293,476)		(1,458,023)
Interest (expense) income, net	(147,737)	3,608	147,106		2,977
Other income (expense), net	195,120	(1,231)	12,453	(192,805)	13,537
Income tax benefit (provision)		2,496	(26,351)		(23,855)
Minority interest in losses of consolidated subsidiaries			353		353
Earnings (loss) from continuing operations	47,383	(7,553)	200,358	(192,805)	47,383
Discontinued operations, net of tax	48,589		48,589	(48,589)	48,589
Net earnings (loss) available to common shareholders	$ 95,972	$ (7,553)	$ 248,947	$ (241,394)	$ 95,972

Statement of operations for the six months ended June 30, 2007:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
	(In thousands)				
Net revenue	$	$ 299,072	$ 2,706,003	$	$ 3,005,075
Operating expenses		(299,916)	(2,563,205)		(2,863,121)
Interest (expense) income, net	(271,672)	4,844	274,080		7,252
Other income (expense), net	381,040	(2,902)	21,218	(377,291)	22,065
Income tax provision		(1,550)	(60,590)		(62,140)
Minority interest in losses of consolidated subsidiaries	3		237		240
Earnings (loss) from continuing operations	109,371	(452)	377,743	(377,291)	109,371
Discontinued operations, net of tax	48,692		48,692	(48,692)	48,692
Net earnings (loss) available to common shareholders	$ 158,063	$ (452)	$ 426,435	$ (425,983)	$ 158,063

Statement of cash flows for the six months ended June 30, 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	$ (273,433)	$ 56,634	$ 623,311	$	$ 406,512
Cash flows used in investing activities attributable to continuing operations	(283,249)	(19,820)	(72,823)		(375,892)
Cash flows provided by (used in) financing activities attributable to continuing operations	556,682	(37,053)	(957,804)		(438,175)
Net cash used in discontinued operations			(3,056)		(3,056)
Effect of exchange rate changes on cash and cash equivalents		386	7,784		8,170
Cash and cash equivalents at beginning of period		51,013	1,377,127		1,428,140
Cash and cash equivalents at end of period	$	$ 51,160	$ 974,539	$	$ 1,025,699

Statement of operations for the three months ended June 30, 2006:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
	(In thousands)				
Net revenue	$	$ 114,061	$ 1,317,562	$	$ 1,431,623
Operating expenses		(127,649)	(1,222,466)		(1,350,115)
Interest (expense) income, net	(110,291)	1,261	112,214		3,184
Other income, net	167,405	12,062	9,175	(173,779)	14,863
Income tax provision		(525)	(41,895)		(42,420)
Minority interest in losses (income) of consolidated subsidiaries	815		(21)		794
Earnings (loss) from continuing operations	57,929	(790)	174,569	(173,779)	57,929
Discontinued operations, net of tax	(4,121)		(4,121)	4,121	(4,121)
Net earnings (loss) available to common shareholders	$ 53,808	$ (790)	$ 170,448	$ (169,658)	$ 53,808

Statement of operations for the six months ended June 30, 2006:

	IAC	IAC Search & Media	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
	(In thousands)				
Net revenue	$	$ 217,417	$ 2,567,613	$	$ 2,785,030
Operating expenses		(237,966)	(2,396,677)		(2,634,643)
Interest (expense) income, net	(217,012)	1,342	222,176		6,506
Other income, net	318,874	11,135	18,735	(329,011)	19,733
Income tax benefit (provision)		2,507	(77,235)		(74,728)
Minority interest in losses (income) of consolidated subsidiaries	707		(36)		671
Earnings (loss) from continuing operations	102,569	(5,565)	334,576	(329,011)	102,569
Discontinued operations, net of tax	(1,578)		(1,578)	1,578	(1,578)
Net earnings (loss) available to common shareholders	$ 100,991	$ (5,565)	$ 332,998	$ (327,433)	$ 100,991

Statement of cash flows for the six months ended June 30, 2006:

	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	$ (161,378)	$ 55,705	$ 508,644	$	$ 402,971
Cash flows (used in) provided by investing activities attributable to continuing operations	(59,278)	(9,471)	289,448		220,699
Cash flows provided by (used in) financing activities attributable to continuing operations	220,656	(46,203)	(710,338)		(535,885)
Net cash used in discontinued operations			(32,592)		(32,592)
Effect of exchange rate changes on cash and cash equivalents		1,351	17,042		18,393
Cash and cash equivalents at beginning of period		72,977	914,103		987,080
Cash and cash equivalents at end of period	$	$ 74,359	$ 986,307	$	$ 1,060,666

NOTE 12 SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental Disclosure of Non-Cash Transactions for the six months ended June 30, 2007

On June 19, 2007, IAC completed the sale of HSE and received approximately 5.5 million shares of ARO stock and a derivative asset, valued at $190.1 million and $27.1 million, respectively. See Note 10 for a further description of the sale of HSE.

On June 8, 2007, the Company made an investment in Front Line, which included the conversion of a $26.5 million convertible note. See Note 9 for a further description of the Company s investment in Front Line.

During the six months ended June 30, 2007, $7.5 million in aggregate principal amount of Convertible Notes was converted by the holders. Upon conversion, 0.3 million shares of IAC common stock and 0.3 million shares of Expedia common stock were issued to the holders.

Supplemental Disclosure of Non-Cash Transactions for the six months ended June 30, 2006

During the six months ended June 30, 2006, $79.3 million in aggregate principal amount of Convertible Notes was converted by the holders. Upon conversion, 3.0 million shares of IAC common stock and 3.0 million shares of Expedia common stock were issued to the holders.

NOTE 13 Comprehensive Income

Comprehensive income is comprised of (in thousands):

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Net earnings available to common shareholders	$ 95,972	$ 53,808	$ 158,063	$ 100,991
Foreign currency translation	(9,768)	14,107	(6,966)	20,130
Unrealized losses on available for sale securities	(6,164)	(3,537)	(4,809)	(3,591)
Net gains (losses) on derivative contracts	201	145	(2,261)	155
Other comprehensive (loss) income	(15,731)	10,715	(14,036)	16,694
Comprehensive income	$ 80,241	$ 64,523	$ 144,027	$ 117,685

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

	June 30, 2007	December 31, 2006
Foreign currency translation	$ 71,581	$ 78,547
Unrealized losses on available for sale securities	(9,206)	(4,397)
Net gains on derivative contracts	94	2,355
Accumulated other comprehensive income	$ 62,469	$ 76,505

NOTE 14 INCOME TAXES

The Company calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28, Interim Financial Reporting, and FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods. 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. Included in the income tax provision for the three months ended June 30, 2007 is a provision of $1.0 million due to a change in the estimated annual effective tax rate from that used in the first quarter.

For the three and six months ended June 30, 2007, the Company recorded a tax provision for continuing operations of $23.9 million and $62.1 million, respectively, which represent effective tax rates of 34% and 36%, respectively. The tax rate for the three months ended June 30, 2007 is lower than the federal statutory rate of 35% due to benefits from foreign tax credits, which offset interest on tax contingencies, and lower state taxes due to discrete items recognized in the period. The tax rate for the six months ended June 30, 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.

For the three and six months ended June 30, 2006, the Company recorded a tax provision for continuing operations of $42.4 million and $74.7 million, respectively, which represent effective tax rates of

43% and 42%, respectively. The tax rate for the three months ended June 30, 2006 is higher than the federal statutory rate of 35% due principally to state taxes and interest on tax contingencies, partially offset by the non-taxable gain on the fair value of derivatives created in the Expedia spin-off. The tax rate for the six months ended June 30, 2006 is higher than the federal statutory rate of 35% due principally to state taxes and interest on tax contingencies, partially offset by foreign income taxed at lower tax rates.

The Company has adopted the provisions of FIN 48 effective January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of the adoption resulted in an increase of $420.7 million to retained earnings. As of January 1, 2007 and June 30, 2007, the Company had unrecognized tax benefits of approximately $242.0 million and $245.1 million, respectively. If unrecognized tax benefits as of June 30, 2007 are subsequently recognized, approximately $37.2 million and $38.2 million, net of related deferred tax assets, would reduce income tax expense from continuing operations and discontinued operations, respectively.

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 and six months ended June 30, 2007 is $2.0 million and $4.7 million, net of related deferred taxes, respectively, for interest on unrecognized tax benefits. At January 1, 2007 and June 30, 2007 the Company has accrued $16.0 million and $24.5 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 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.

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 and New York, 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 change within twelve months of the current reporting date. While the amount could be significant, an estimate of this potential change cannot be made.

NOTE 15 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 reasonably possible and, therefore, no reserve is established. Although management currently believes that resolving claims against us 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 14 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 is an interactive conglomerate operating more than 60 diversified brands in sectors being transformed by the internet, online and offline...our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. Our operating businesses provide products and services through a diversified portfolio of specialized and global brands and are organized into the following sectors:

- Retailing;
- Transactions, which includes the Ticketmaster, LendingTree, Real Estate and ServiceMagic reporting segments;
- Media & Advertising; and
- Membership & Subscriptions, which includes the Interval, Match and Entertainment reporting segments.

IAC enables 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.

Beginning with the first quarter of 2007, the Services sector has been renamed Transactions to more clearly reflect the nature of the activities of the businesses within that sector and several segment names were changed to identify the primary brand name within those segments, where practical. These name changes did not affect the composition of our reporting segments and did not have any impact on our financial reporting. Following the sale of the Company s German TV and internet retailer Home Shopping Europe GmbH & Co. KG, and its affiliated station HSE24 (HSE), on June 19, 2007, the segment formerly known as Retailing U.S. has been renamed Retailing.

During the second quarter of 2006, Quiz TV Limited, which was previously reported in our Emerging Businesses group, ceased operations. Additionally, during the fourth quarter of 2006, PRC, IAC s Teleservices subsidiary, was sold and iBuy, which was also previously reported in IAC s Emerging Businesses group, was classified as held for sale. During the second quarter of 2007, iBuy was subsequently sold and HSE, which was previously reported in the International reporting segment of our Retailing sector, was also sold. Accordingly, discontinued operations in the accompanying consolidated statements of operations and cash flows include PRC and HSE through June 30, 2006 and June 19, 2007, respectively. Quiz TV Limited and iBuy are presented as discontinued operations in the accompanying consolidated balance sheets and consolidated statements of operations and cash flows for all periods presented.

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, 2006.

Results of operations for the three and six months ended June 30, 2007 compared to the three and six months ended June 30, 2006

Set forth below are the contributions made by our various sectors, our emerging businesses and corporate expenses to consolidated revenues, operating income and Operating Income Before

Amortization (as defined in IAC s Principles of Financial Reporting) for the three and six months ended June 30, 2007 and 2006 (rounding differences may occur):

	Three months ended June 30,				Six months ended June 30,			
	2007	Percentage of total	2006	Percentage of total	2007	Percentage of total	2006	Percentage of total
	(Dollars in millions)							
Revenue:								
Retailing	$ 701.4	46 %	$ 696.2	49 %	$ 1,386.7	46 %	$ 1,369.4	49 %
Transactions	441.9	29 %	434.0	30 %	886.6	30 %	819.1	29 %
Media & Advertising	174.0	12 %	131.3	9 %	342.1	11 %	248.9	9 %
Membership & Subscriptions	193.2	13 %	171.1	12 %	385.3	13 %	349.6	13 %
Emerging Businesses	5.4	0 %	0.5	0 %	8.9	0 %	0.9	0 %
Inter-sector elimination	(3.5)	0 %	(1.5)	0 %	(4.5)	0 %	(2.8)	0 %
Total	$ 1,512.4	100 %	$ 1,431.6	100 %	$ 3,005.1	100 %	$ 2,785.0	100 %

	Three months ended June 30,				Six months ended June 30,			
	2007	Percentage of total	2006	Percentage of total	2007	Percentage of total	2006	Percentage of total
	(Dollars in millions)							
Operating Income (Loss):								
Retailing	$ 34.6	64 %	$ 49.9	61 %	$ 69.2	49 %	$ 92.5	62 %
Transactions	48.5	89 %	75.3	92 %	110.7	78 %	138.8	92 %
Media & Advertising	(10.7)	(20)%	(11.3)	(14)%	(0.2)	0 %	(17.8)	(12)%
Membership & Subscriptions	28.0	51 %	21.3	26 %	57.1	40 %	38.4	26 %
Emerging Businesses	2.4	4 %	(4.3)	(5)%	(0.7)	0 %	(8.4)	(6)%
Corporate and other	(48.4)	(89)%	(49.3)	(60)%	(94.2)	(66)%	(93.1)	(62)%
Total	$ 54.4	100 %	$ 81.5	100 %	$ 142.0	100 %	$ 150.4	100 %

	Three months ended June 30,				Six months ended June 30,			
	2007	Percentage of total	2006	Percentage of total	2007	Percentage of total	2006	Percentage of total
	(Dollars in millions)							
Operating Income Before Amortization:								
Retailing	$ 38.4	28 %	$ 60.5	37 %	$ 78.2	28 %	$ 119.5	38 %
Transactions	62.2	46 %	90.5	55 %	136.7	49 %	167.4	53 %
Media & Advertising	11.7	9 %	10.7	7 %	28.9	10 %	22.3	7 %
Membership & Subscriptions	42.4	31 %	29.5	18 %	78.7	28 %	58.2	18 %
Emerging Businesses	2.9	2 %	(4.2)	(3)%	0.3	0 %	(8.1)	(3)%
Corporate and other	(22.1)	(16)%	(22.1)	(13)%	(44.7)	(16)%	(41.2)	(13)%
Total	$ 135.6	100 %	$ 165.1	100 %	$ 278.1	100 %	$ 318.1	100 %

IAC Consolidated Results

Revenue

For the three months ended June 30, 2007 compared to the three months ended June 30, 2006

Revenue in 2007 increased $80.8 million from 2006 primarily as a result of revenue increases of $42.8 million from the Media & Advertising sector, $22.1 million from the Membership & Subscriptions sector, $7.9 million from the Transactions sector and $5.2 million from the Retailing sector. The increase from the Media & Advertising sector was driven primarily from growth at the syndicated search and Fun Web Products businesses. Results from the Membership & Subscriptions sector benefited from an 8% increase in confirmed vacations and a 6% increase in membership at Interval, and a 12% increase in average revenue per subscriber in North America and worldwide growth in subscribers of 1% at Match. The increase from the Transactions sector was driven by strong growth at ServiceMagic and, to a lesser extent, a 1% increase in worldwide ticket volume and an increase in other ticket revenue at our Ticketmaster segment. Partially offsetting the revenue growth at ServiceMagic and Ticketmaster was a revenue decline at LendingTree, which continues to operate in a difficult home loan market. The increase in the Retailing sector reflects strong gains at Shoebuy and slight growth from the Catalogs business, partially offset by a 1% decline in sales at HSN.

For the six months ended June 30, 2007 compared to the six months ended June 30, 2006

Revenue in 2007 increased $220.0 million from 2006 primarily as a result of revenue increases of $93.2 million from the Media & Advertising sector, $67.5 million from the Transactions sector, $35.7 million from the Membership & Subscriptions sector, and $17.3 million from the Retailing sector. The revenue growth from the Media & Advertising sector was driven primarily by an increase in queries from syndicated search and increased queries and revenue per query at Fun Web Products. The growth in the Transactions sector was driven by a higher mix and volume of concert ticket sales and continued international strength at our Ticketmaster segment, partially offset by a decline in LendingTree revenue, which continues to be impacted by a contracting mortgage market. The contribution from the Membership & Subscriptions sector was driven by increased transaction volume and membership at Interval, and increased average revenue per subscriber and worldwide subscribers at Match. The growth from the Retailing sector reflects the full six month inclusion and growth of Shoebuy, which was acquired on February 3, 2006, and slight growth from the Catalogs business, partially offset by a 1% decline in sales at HSN.

Cost of sales

For the three months ended June 30, 2007 compared to the three months ended June 30, 2006

	Three months ended June 30,		
	2007	**% Change**	**2006**
	(Dollars in thousands)		
Cost of sales	$ 784,823	9%	$ 718,599
As a percentage of total revenue	52%	170 bp	50%
Gross margins	48%	(170) bp	50%

Cost of sales consists primarily of the cost of products sold, as well as ticketing royalties, traffic acquisition costs, compensation and other employee-related costs (including stock-based compensation) for personnel engaged in warehouse and call center functions and credit card processing fees. Ticketing royalties relate to Ticketmaster s clients share of convenience and order processing charges. Traffic acquisition costs consist of revenue share payments to partners that have integrated sponsored listings into their web sites and similar arrangements with third parties who direct traffic to our web sites.

Cost of sales in 2007 increased $66.2 million from 2006 primarily due to increased expenses of $30.2 million from the Media & Advertising sector, $16.6 million from the Transactions sector and $14.8 million from the Retailing sector. The increase in cost of sales from the Media & Advertising sector was primarily due to an increase of $27.1 million in revenue share payments to third party traffic sources which is a direct result from the growth in network revenue at IAC Search & Media. The increase in the Transactions sector was primarily driven by increases of $5.1 million in ticketing royalties and $4.7 million in compensation and other employee-related costs at our Ticketmaster segment due in part to higher royalty rates and increased costs associated with a 14% increase in headcount, respectively. Also contributing to the increase in cost of sales were increased expenses from the Retailing sector of $13.5 million in cost of products sold due to increased revenue and a shift in product mix to items with lower gross margins.

For the six months ended June 30, 2007 compared to the six months ended June 30, 2006

	Six months ended June 30,		
	2007	% Change	2006
	(Dollars in thousands)		
Cost of sales	$ 1,556,551	12%	$ 1,395,293
As a percentage of total revenue	52%	170 bp	50%
Gross margins	48%	(170) bp	50%

Cost of sales in 2007 increased $161.3 million from 2006 primarily due to increased expenses of $64.2 million from the Transactions sector, $63.2 million from the Media & Advertising sector and $30.2 million from the Retailing sector. The increase in cost of sales from the Transactions sector was primarily driven by increases of $31.4 million in ticketing royalties, $9.3 million in compensation and other employee-related costs and $7.4 million in credit card processing fees at our Ticketmaster segment due in part to higher revenue and higher royalty rates. The increase in the Media & Advertising sector was primarily due to an increase of $55.8 million in revenue share payments to third party traffic sources resulting from higher network revenue. Also contributing to the increase in cost of sales were increased expenses from the Retailing sector of $23.6 million in cost of products sold and $5.1 million in shipping and handling costs. Included in these increases at the Retailing sector is the impact of a full six months of results from Shoebuy in 2007.

Selling and marketing expense

For the three months ended June 30, 2007 compared to the three months ended June 30, 2006

	Three months ended June 30,		
	2007	% Change	2006
	(Dollars in thousands)		
Selling and marketing expense	$ 346,291	7 %	$ 323,585
As a percentage of total revenue	23%	29 bp	23%

Selling and marketing expense consists primarily of advertising and promotional expenditures, compensation and other employee-related costs (including stock-based compensation) for personnel engaged in customer service and sales functions and on-air distribution costs. Advertising and promotional expenditures primarily include online marketing and catalog circulation costs, as well as television, print and radio spending.

Selling and marketing expense in 2007 increased $22.7 million from 2006 primarily due to increases of $8.2 million from the Media & Advertising sector, $5.9 million from the Retailing sector and $3.6 million from the Transactions sector. The increase in selling and marketing expense from the Media & Advertising sector was primarily due to an increase of $4.6 million in advertising and promotional expenditures, as well as an increase of $2.3 million in compensation and other employee-related costs. In addition, selling and marketing expense increased at the Retailing sector primarily due to an increase of $2.9 million in on-air distribution costs at HSN and $1.4 million in compensation and other employee-related costs, partially offset by a decrease of $2.5 million in catalog circulation costs. Selling and marketing expense from the Transactions sector increased primarily due to an increase of $3.9 million in advertising and promotional expenditures.

For the six months ended June 30, 2007 compared to the six months ended June 30, 2006

	Six months ended June 30,		
	2007	**% Change**	**2006**
	(Dollars in thousands)		
Selling and marketing expense	$ 677,669	7%	$ 630,533
As a percentage of total revenue	23%	(9) bp	23%

Selling and marketing expense in 2007 increased $47.1 million from 2006 primarily due to increases of $16.7 million from the Media & Advertising sector, $12.1 million from the Retailing sector and $9.3 million from the Membership & Subscriptions sector. The increase in selling and marketing expense from the Media & Advertising sector was primarily due to an increase of $6.1 million in compensation and other employee-related costs, as well as an increase of $5.4 million in advertising and promotional expenditures. The increase in compensation and other employee-related costs is due in part to a 58% increase in headcount from the prior year period at Citysearch. Selling and marketing expense from the Retailing sector increased primarily due to an increase of $7.0 million in on-air distribution costs at HSN and the inclusion of six months of results from Shoebuy in 2007, partially offset by a decrease of $5.0 million in catalog circulation costs. In addition, selling and marketing expense increased at the Memberships & Subscriptions sector primarily due to an increase of $11.7 million in advertising and promotional expenditures at Match related to its domestic and international marketing campaigns, partially offset by decreases of $1.8 million in both compensation and other employee-related costs and advertising and promotional expenditures at Entertainment.

General and administrative expense

For the three months ended June 30, 2007 compared to the three months ended June 30, 2006

	Three months ended June 30,		
	2007	**% Change**	**2006**
	(Dollars in thousands)		
General and administrative expense	$ 205,949	9%	$ 188,315
As a percentage of total revenue	14%	46 bp	13%

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 2007 increased $17.6 million from 2006 primarily due to increases of $15.4 million from the Transactions sector and $6.4 million from the Retailing sector, partially offset by a reduction in expense of $4.9 million from the Emerging Businesses group. The increase in general and administrative expense from the Transactions sector was primarily due to an increase of $7.0 million in certain litigation reserves at Ticketmaster recorded in the current year period. Also contributing to the increase in general and administrative expense in the Transactions sector is $3.7 million and $0.9 million in costs associated with a reduction in work force at LendingTree and a restructuring at Real Estate, respectively. In addition, general and administrative expense increased at the Retailing sector primarily due to a $4.2 million increase in compensation and other employee-related costs. Offsetting these increases in general and administrative expense is an $8.2 million reimbursement of previously expensed advances related to the restructuring of our interests in a business venture within the Emerging Businesses group.

General and administrative expense includes non-cash compensation of $22.5 million in 2007 compared with $24.2 million in 2006. As of June 30, 2007, there was approximately $244.6 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 3.0 years.

For the six months ended June 30, 2007 compared to the six months ended June 30, 2006

	Six months ended June 30,		
	2007	% Change	2006
	(Dollars in thousands)		
General and administrative expense	$ 408,944	13%	$ 362,652
As a percentage of total revenue	14%	59 bp	13%

General and administrative expense in 2007 increased $46.3 million from 2006 primarily due to increases of $31.2 million from the Transactions sector and $17.4 million from the Retailing sector. The increase in general and administrative expense from the Transactions sector was primarily due to an increase of $7.0 million in certain litigation reserves at Ticketmaster in the current year period compared to the prior year period which includes a reduction of $5.8 million in certain litigation reserves. General and administrative expense at our Transactions sector also reflect increases of $4.2 million and $3.9 million in compensation and other employee-related costs at ServiceMagic and Ticketmaster, respectively. The increase in compensation and other employee-related costs is due in part to increases in headcount resulting from growth in these businesses. The Transactions sector was further impacted by increased costs associated with a reduction in workforce at LendingTree and a restructuring at Real Estate as noted above in the three month discussion. Also contributing to the increase in general and administrative expense was an increase at the Retailing sector of $10.4 million in compensation and other employee-related costs and $3.0 million in professional fees. Included in this increase at the Retailing sector is the impact of six months of results from Shoebuy in 2007.

General and administrative expense includes non-cash compensation of $42.8 million in 2007 compared with $44.0 million in 2006.

Other operating expense

For the three months ended June 30, 2007 compared to the three months ended June 30, 2006

	Three months ended June 30,		
	2007	% Change	2006
	(Dollars in thousands)		
Other operating expense	$ 27,968	3%	$ 27,266
As a percentage of total revenue	2%	(6) bp	2%

Other operating expense consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in production and programming at the Retailing sector and product development at IAC Search & Media which include costs related to the design, development, testing and enhancement of its technology that are not capitalized.

Other operating expense in 2007 increased $0.7 million from 2006 primarily due to an increase of $0.4 million in compensation and other employee-related costs at IAC Search & Media in 2007, due in part to a 19% increase in headcount, as it continues to upgrade and enhance its search technology.

For the six months ended June 30, 2007 compared to the six months ended June 30, 2006

	Six months ended June 30,		
	2007	% Change	2006
	(Dollars in thousands)		
Other operating expense	$ 58,383	6%	$ 54,843
As a percentage of total revenue	2%	(3) bp	2%

Other operating expense in 2007 increased $3.5 million from 2006 due primarily to the factors noted above in the three month discussion.

Depreciation

For the three and six months ended June 30, 2007 compared to the three and six months ended June 30, 2006

	Three months ended June 30,			Six months ended June 30,		
	2007	% Change	2006	2007	% Change	2006
	(Dollars in thousands)					
Depreciation	$ 38,659	3%	$ 37,521	$ 76,506	0%	$ 76,339
As a percentage of total revenue	3%	(6) bp	3%	3%	(20) bp	3%

Depreciation for both the three and six months ended June 30, 2007 increased $1.1 million and $0.2 million, respectively, primarily due to the incremental depreciation associated with capital expenditures made during 2006 and 2007, partially offset by certain fixed assets becoming fully depreciated during the period.

Operating Income Before Amortization

For the three months ended June 30, 2007 compared to the three months ended June 30, 2006

	Three months ended June 30,		
	2007	% Change	2006
	(Dollars in thousands)		
Operating Income Before Amortization	$ 135,562	(18)%	$ 165,051
As a percentage of total revenue	9%	(257) bp	12%

Operating Income Before Amortization in 2007 decreased $29.5 million from 2006 primarily due to declines of $28.3 million and $22.1 million from the Transactions and Retailing sectors, respectively, which more than offset growth of $12.9 million and $7.1 million from the Membership & Subscriptions sector and the Emerging Businesses group, respectively. The Transactions sector declined due to increased fixed costs at Ticketmaster and lower revenue and higher cost per loan at LendingTree. Operating Income Before Amortization was further impacted by lower gross margins at Retailing. The Membership & Subscriptions sector was positively impacted by continued growth at Interval and Match. Also contributing to Operating Income Before Amortization is the favorable impact of an $8.2 million reimbursement of previously expensed advances within the Emerging Businesses group as noted above in the general and administrative expense discussion.

For the six months ended June 30, 2007 compared to the six months ended June 30, 2006

	Six months ended June 30,		
	2007	% Change	2006
	(Dollars in thousands)		
Operating Income Before Amortization	$ 278,106	(13)%	$ 318,050
As a percentage of total revenue	9%	(217) bp	11%

Operating Income Before Amortization in 2007 decreased $39.9 million from 2006 primarily due to declines of $41.2 million and $30.7 million from the Retailing and Transactions sectors, respectively, which more than offset strong growth of $20.5 million, $8.4 million and $6.6 million from the Membership & Subscriptions sector, the Emerging Businesses group and Media & Advertising sector, respectively.

Operating Income Before Amortization was impacted primarily due to the factors noted above in the three month discussion.

Operating income

For the three months ended June 30, 2007 compared to the three months ended June 30, 2006

	Three months ended June 30,,		
	_2007	% Change	2006
	(Dollars in thousands)		
Operating income	$ 54,371	(33)%	$ 81,508
As a percentage of total revenue	4%	(210) bp	6%

Operating income in 2007 decreased $27.1 million from 2006 primarily due to a decrease of $29.5 million in Operating Income Before Amortization discussed above and a $14.4 million increase in amortization of non-cash marketing, partially offset by a $14.9 million decrease in amortization of intangibles and a $1.9 million decrease 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. The decrease in amortization of intangibles relates primarily to lower amortization expense at the Media & Advertising, Retailing and Transactions sectors as certain intangible assets with definite lives became fully amortized.

For the six months ended June 30, 2007 compared to the six months ended June 30, 2006

	Six months ended June 30,		
	2007	% Change	2006
	(Dollars in thousands)		
Operating income	$ 141,954	(6)%	$ 150,387
As a percentage of total revenue	5%	(68) bp	5%

Operating income in 2007 decreased $8.4 million from 2006 primarily due to a decrease of $39.9 million in Operating Income Before Amortization discussed above and a $6.5 million increase in amortization of non-cash marketing, partially offset by a $36.4 million decrease in amortization of intangibles and a $1.6 million decrease in non-cash compensation expense.

Other income (expense)

For the three months ended June 30, 2007 compared to the three months ended June 30, 2006

	Three months ended June 30,		
	2007	% Change	2006
	(Dollars in thousands)		
Other income (expense):			
Interest income	$ 18,576	(2)%	$ 18,947
Interest expense	(15,599)	(1)%	(15,763)
Equity in income of unconsolidated affiliates	6,636	(18)%	8,103
Other income	6,901	2%	6,760

Equity in income of unconsolidated affiliates in 2007 decreased $1.5 million from 2006 primarily due to a smaller contribution from the Company s investment in Jupiter Shop Channel, a shopping channel in Japan.

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For the six months ended June 30, 2007 compared to the six months ended June 30, 2006

	Six months ended June 30,		
	2007	**% Change**	**2006**
	(Dollars in thousands)		
Other income (expense):			
Interest income	$ 37,867	1%	$ 37,337
Interest expense	(30,615)	(1)%	(30,831)
Equity in income of unconsolidated affiliates	14,483	(16)%	17,272
Other income	7,582	208%	2,461

Equity in income of unconsolidated affiliates in 2007 decreased $2.8 million from 2006 primarily due to the factors noted above in the three month discussion.

Other income in 2007 increased $5.1 million from 2006 primarily due to a $3.6 million gain on the sale of fixed assets, a positive change of $2.0 million in the amount recognized related to the derivatives created in the Expedia spin-off and a positive change of $1.9 million in the amount recognized related to the derivative asset received by the Company in connection with the sale of HSE (see Note 10 to the consolidated financial statements), partially offset by $1.9 million decrease in foreign exchange gains.

Income tax provision

For the three months ended June 30, 2007 compared to the three months ended June 30, 2006

In 2007, the Company recorded a tax provision for continuing operations of $23.9 million which represents an effective tax rate of 34%. The 2007 tax rate is lower than the federal statutory rate of 35% due principally to benefits from foreign tax credits, which offset interest on tax contingencies, and lower state taxes due to discrete items recognized in the period. In 2006, the Company recorded a tax provision for continuing operations of $42.4 million which represents an effective tax rate of 43%. The 2006 tax rate is higher than the federal statutory rate of 35% due principally to state taxes and interest on tax contingencies, partially offset by the non-taxable gain on the fair value of derivatives created in the Expedia spin-off.

For the six months ended June 30, 2007 compared to the six months ended June 30, 2006

In 2007, the Company recorded a tax provision for continuing operations of $62.1 million which represents an effective tax rate of 36%. The 2007 tax rate 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. In 2006, the Company recorded a tax provision for continuing operations of $74.7 million which represents an effective tax rate of 42%. The 2006 tax rate is higher than the federal statutory rate of 35% due principally to state taxes and interest on tax contingencies, partially offset by foreign income taxed at lower tax rates.

The Company has adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 effective January 1, 2007. The cumulative effect of the adoption resulted in an increase of $420.7 million to retained earnings. As of January 1, 2007 and June 30, 2007, the Company had unrecognized tax benefits of approximately $242.0 million and $245.1 million, respectively, which included accrued interest of $16.0 million and $24.5 million, respectively.

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. Annual 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. The Company believes that it is reasonably possible that its unrecognized tax benefits could change within twelve months of the current reporting date. While the amount could be significant, an estimate of this potential change cannot be made.

Discontinued operations

For the three months ended June 30, 2007 compared to the three months ended June 30, 2006

Discontinued operations in the accompanying consolidated statements of operations include PRC and HSE through June 30, 2006 and June 19, 2007, respectively. Quiz TV Limited, iBuy, TV Travel Shop, Styleclick and ECS are presented as discontinued operations in the accompanying consolidated statements of operations for all periods presented. Income (loss) from these discontinued operations, net of tax in the second quarter of 2007 and 2006 was $13.5 million and $(4.1) million, respectively. The 2007 amount is principally due to the income of iBuy and HSE and the 2006 amount is principally due to the losses of Quiz TV and iBuy, partially offset by the income of PRC. Additionally in 2007, the Company recognized an after-tax gain on the sale of HSE of $35.1 million.

For the six months ended June 30, 2007 compared to the six months ended June 30, 2006

Income (loss) from discontinued operations, net of tax in the first half of 2007 and 2006 was $13.6 million and $(1.6) million, respectively. The 2007 amount is principally due to the income of HSE and iBuy and the 2006 amount is principally due to the losses of iBuy and Quiz TV, partially offset by income of PRC and HSE. Additionally, as noted above in the three month discussion, the Company recognized an after-tax gain on the sale of HSE of $35.1 million in 2007.

In addition to the discussion of consolidated results, the following is a discussion of the results of each sector (Dollars in millions, rounding differences may occur).

	Three months ended June 30,			Six months ended June 30,		
	2007	**2006**	**Growth**	**2007**	**2006**	**Growth**
Revenue:						
Retailing	$ 701.4	$ 696.2	1 %	$ 1,386.7	$ 1,369.4	1 %
Transactions:						
Ticketmaster	302.7	295.1	3 %	612.6	540.8	13 %
LendingTree	98.6	107.9	(9)%	198.6	221.9	(10)%
Real Estate	15.4	15.0	2 %	28.6	26.5	8 %
ServiceMagic	25.3	16.0	58 %	46.9	29.9	57 %
Intra-sector elimination	(0.1)		NM	(0.1)		NM
Total Transactions	441.9	434.0	2 %	886.6	819.1	8 %
Media & Advertising	174.0	131.3	33 %	342.1	248.9	37