

IAC/INTERACTIVECORP
Form 10-Q
May 06, 2011

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As filed with the Securities and Exchange Commission on May 6, 2011

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2011

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
(State or other jurisdiction of
incorporation or organization)

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

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

(212) 314-7300

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of April 22, 2011, the following shares of the registrant's common stock were outstanding:

| | |
|--------------------------------|------------|
| Common Stock | 85,292,756 |
| Class B Common Stock | 4,595,378 |
| Total outstanding Common Stock | 89,888,134 |

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of April 22, 2011 was \$2,711,241,049. 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 INFORMATION

Item 1. Consolidated Financial Statements**IAC/INTERACTIVECORP AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET**

| | March 31, 2011 (unaudited) | December 31, 2010 (audited) |
|---|-------------------------------|--------------------------------|
| (In thousands, except share data) | | |
| ASSETS | | |
| Cash and cash equivalents | \$ 848,595 | \$ 742,099 |
| Marketable securities | 468,890 | 563,997 |
| Accounts receivable, net of allowance of \$8,942 and \$8,848, respectively | 131,735 | 119,581 |
| Other current assets | 118,115 | 118,308 |
| | | |
| Total current assets | 1,567,335 | 1,543,985 |
| Property and equipment, net | 262,569 | 267,928 |
| Goodwill | 1,074,885 | 989,493 |
| Intangible assets, net | 248,431 | 245,044 |
| Long-term investments | 199,179 | 200,721 |
| Other non-current assets | 184,230 | 192,383 |
| | | |
| TOTAL ASSETS | \$ 3,536,629 | \$ 3,439,554 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Accounts payable, trade | \$ 57,943 | \$ 56,375 |
| Deferred revenue | 92,658 | 78,175 |
| Accrued expenses and other current liabilities | 254,018 | 222,323 |
| | | |
| Total current liabilities | 404,619 | 356,873 |
| Long-term debt | 95,844 | 95,844 |
| Income taxes payable | 478,203 | 475,685 |
| Other long-term liabilities | 19,906 | 20,350 |
| Redeemable noncontrolling interests | 60,117 | 59,869 |
| Commitments and contingencies | | |
| SHAREHOLDERS' EQUITY: | | |
| Common stock \$.001 par value; authorized 1,600,000,000 shares; issued 227,471,581 and 225,873,751 shares, respectively, and outstanding 85,268,800 and 84,078,621 shares, respectively | 227 | 226 |
| Class B convertible common stock \$.001 par value; authorized 400,000,000 shares; issued 16,157,499 shares and outstanding 4,595,378 and 4,289,499 shares, respectively | 16 | 16 |
| Additional paid-in capital | 11,457,311 | 11,428,749 |

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| | | |
|---|------------------|------------------|
| Accumulated deficit | (633,948) | (652,018) |
| Accumulated other comprehensive income | 20,843 | 17,546 |
| Treasury stock 153,764,902 and 153,663,130 shares, respectively | (8,366,509) | (8,363,586) |
| Total shareholders' equity | 2,477,940 | 2,430,933 |

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY \$ 3,536,629 \$ 3,439,554

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

IAC/INTERACTIVECORP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

| | Three Months Ended March 31, | |
|--|--|--------------------|
| | 2011 | 2010 |
| | (In thousands, except per share data) | |
| Revenue | \$ 460,213 | \$ 378,178 |
| Costs and expenses: | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 172,718 | 131,149 |
| Selling and marketing expense | 140,250 | 130,381 |
| General and administrative expense | 76,291 | 73,964 |
| Product development expense | 17,722 | 14,792 |
| Depreciation | 13,439 | 15,793 |
| Amortization of intangibles | 2,457 | 3,174 |
| Total costs and expenses | 422,877 | 369,253 |
| Operating income | 37,336 | 8,925 |
| Equity in losses of unconsolidated affiliates | (1,879) | (22,613) |
| Other income, net | 752 | 5,236 |
| Earnings (loss) from continuing operations before income taxes | 36,209 | (8,452) |
| Income tax provision | (16,041) | (6,145) |
| Earnings (loss) from continuing operations | 20,168 | (14,597) |
| Loss from discontinued operations, net of tax | (1,948) | (4,727) |
| Net earnings (loss) | 18,220 | (19,324) |
| Net (earnings) loss attributable to noncontrolling interests | (150) | 619 |
| Net earnings (loss) attributable to IAC shareholders | \$ 18,070 | \$ (18,705) |
| Per share information attributable to IAC shareholders: | | |
| Basic earnings (loss) per share from continuing operations | \$ 0.22 | \$ (0.12) |
| Diluted earnings (loss) per share from continuing operations | \$ 0.21 | \$ (0.12) |
| Basic earnings (loss) per share | \$ 0.20 | \$ (0.16) |
| Diluted earnings (loss) per share | \$ 0.19 | \$ (0.16) |
| Non-cash compensation expense by function: | | |
| Cost of revenue | \$ 1,082 | \$ 941 |
| Selling and marketing expense | 1,035 | 983 |
| General and administrative expense | 16,400 | 18,143 |
| Product development expense | 1,644 | 1,478 |
| Total non-cash compensation expense | \$ 20,161 | \$ 21,545 |

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

IAC/INTERACTIVECORP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

Three Months Ended
March 31,
2011 2010
(In thousands)

| | | |
|---|----------------|------------------|
| Cash flows from operating activities attributable to continuing operations: | | |
| Net earnings (loss) | \$ 18,220 | \$ (19,324) |
| Less: loss from discontinued operations, net of tax | 1,948 | 4,727 |
| Earnings (loss) from continuing operations | 20,168 | (14,597) |
| Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by operating activities attributable to continuing operations: | | |
| Depreciation | 13,439 | 15,793 |
| Amortization of intangibles | 2,457 | 3,174 |
| Non-cash compensation expense | 20,161 | 21,545 |
| Deferred income taxes | 6,374 | 6,816 |
| Equity in losses of unconsolidated affiliates | 1,879 | 22,613 |
| Gain on sales of investments | (846) | (3,989) |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (13,711) | (12,129) |
| Other current assets | (1,008) | (2,955) |
| Accounts payable and other current liabilities | (13,714) | 4,816 |
| Income taxes payable | (195) | 6,997 |
| Deferred revenue | 14,263 | 6,544 |
| Other, net | 4,625 | 1,920 |
| Net cash provided by operating activities attributable to continuing operations | 53,892 | 56,548 |
| Cash flows from investing activities attributable to continuing operations: | | |
| Acquisitions, net of cash acquired | (48,269) | (9,759) |
| Capital expenditures | (8,294) | (11,490) |
| Proceeds from sales and maturities of marketable debt securities | 190,936 | 195,665 |
| Purchases of marketable debt securities | (98,484) | (284,933) |
| Proceeds from sales of investments | 7,829 | 5,325 |
| Purchases of long-term investments | (604) | (213) |
| Other, net | 40 | (2,371) |
| Net cash provided by (used in) investing activities attributable to continuing operations | 43,154 | (107,776) |
| Cash flows from financing activities attributable to continuing operations: | | |
| Purchase of treasury stock | | (246,154) |
| Issuance of common stock, net of withholding taxes | (1,081) | 2,471 |
| Excess tax benefits from stock-based awards | 9,680 | 4,800 |
| Other, net | 20 | |
| Net cash provided by (used in) financing activities attributable to continuing operations | 8,619 | (238,883) |
| Total cash provided by (used in) continuing operations | 105,665 | (290,111) |

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| | | |
|---|------------|------------|
| Net cash used in activities attributable to discontinued operations | (1,047) | (386) |
| Effect of exchange rate changes on cash and cash equivalents | 1,878 | (3,228) |
| Net increase (decrease) in cash and cash equivalents | 106,496 | (293,725) |
| Cash and cash equivalents at beginning of period | 742,099 | 1,245,997 |
| Cash and cash equivalents at end of period | \$ 848,595 | \$ 952,272 |

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

IAC is a leading internet company with more than 50 brands serving consumer audiences across more than 30 countries our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. IAC includes the businesses comprising its Search segment; its Match and ServiceMagic segments; the businesses comprising its Media & Other segment; as well as investments in unconsolidated affiliates.

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

Basis of Presentation

The consolidated financial statements include the accounts of the Company, all entities that are wholly-owned by the Company and all entities in which the Company has a controlling financial interest, whether through voting interests or variable interests. The Company's consolidated financial statements include one variable interest entity, in which the Company has a controlling financial interest through voting rights and is also the primary beneficiary. Intercompany transactions and accounts have been eliminated. Investments in entities in which the Company has the ability to exercise significant influence over the operating and financial matters of the investee, but does not have a controlling financial interest, are accounted for using the equity method and are included in "Long-term investments" in the accompanying consolidated balance sheet.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2010.

The accompanying unaudited consolidated statements of operations and cash flows for the three months ended March 31, 2010 have been reclassified to present Evite, Gifts.com, IAC Advertising Solutions and InstantAction, all of which were previously reported in IAC's Media & Other segment, as discontinued operations. In addition, certain other prior year amounts have been reclassified to conform to the current year presentation.

Accounting Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. Actual amounts could differ materially from these estimates. On an ongoing basis, the Company evaluates its estimates and judgments including those related to the fair values of marketable securities and other investments, goodwill and indefinite-lived intangible assets, the useful lives of definite-lived intangible assets and property and equipment, the carrying value of accounts receivable, including the determination of the allowances for doubtful accounts and other revenue related allowances, the

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

reserves for income tax contingencies and the valuation allowances for deferred income tax assets and the fair value of stock-based awards, among others. The Company bases its estimates and judgments on historical experience, its forecasts and budgets and other factors that the Company considers relevant.

Certain Risks and Concentrations

A substantial portion of the Company's revenue is attributable to online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or changes in customer buying behavior or advertiser spending behavior could adversely affect our operating results. A significant majority of the Company's online advertising revenue is attributable to a paid listing supply agreement with Google Inc. ("Google"). On April 8, 2011, this agreement was amended and extended through March 31, 2016. For the three months ended March 31, 2011 and 2010, revenue earned from Google is \$214.9 million and \$171.5 million, respectively. The majority of this revenue is earned by the businesses comprising the Search segment. Accounts receivable related to revenue earned from Google totaled \$77.3 million at March 31, 2011 and \$70.5 million at December 31, 2010.

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS

Property and equipment, net

| | March 31, 2011 | December 31, 2010 |
|---|-------------------|----------------------|
| | (In thousands) | |
| Buildings and leasehold improvements | \$ 234,483 | \$ 234,328 |
| Computer equipment and capitalized software | 184,441 | 183,055 |
| Furniture and other equipment | 41,394 | 41,930 |
| Projects in progress | 3,203 | 2,944 |
| Land | 5,117 | 5,117 |
| | 468,638 | 467,374 |
| Less: accumulated depreciation and amortization | (206,069) | (199,446) |
| Property and equipment, net | \$ 262,569 | \$ 267,928 |

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS (Continued)

Redeemable noncontrolling interests

| | March 31, 2011 | December 31, 2010 |
|--|-------------------|----------------------|
| (In thousands) | | |
| Balance at January 1 | \$ 59,869 | \$ 28,180 |
| Noncontrolling interests related to acquisitions | | 23,583 |
| Noncontrolling interest created by a decrease in the ownership of a subsidiary | | 15,750 |
| Contribution from owners of noncontrolling interests | 20 | 79 |
| Net earnings (loss) attributable to noncontrolling interests | 150 | (5,007) |
| Change in fair value of redeemable noncontrolling interests | | (2,059) |
| Change in foreign currency translation adjustment | 78 | (267) |
| Other | | (390) |
| Balance at end of period | \$ 60,117 | \$ 59,869 |

Accumulated other comprehensive income

| | March 31, 2011 | December 31, 2010 |
|---|-------------------|----------------------|
| (In thousands) | | |
| Foreign currency translation adjustment, net of tax | \$ 16,955 | \$ 16,027 |
| Unrealized gains on available-for-sale securities, net of tax | 3,888 | 1,519 |
| Accumulated other comprehensive income, net of tax | \$ 20,843 | \$ 17,546 |

Other income (expense), net

| | Three Months Ended March 31, | |
|------------------------------|---------------------------------|----------|
| | 2011 | 2010 |
| (In thousands) | | |
| Interest income | \$ 1,302 | \$ 1,635 |
| Interest expense | (1,355) | (1,323) |
| Gain on sales of investments | 846 | 3,989 |
| Other | (41) | 935 |
| Other income, net | \$ 752 | \$ 5,236 |

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS (Continued)

Comprehensive income (loss)

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2011 | 2010 |
| | (In thousands) | |
| Net earnings (loss) attributable to IAC shareholders | \$ 18,070 | \$ (18,705) |
| Change in foreign currency translation adjustment, net of tax | 928 | (4,673) |
| Change in net unrealized gains (losses) on available-for-sale securities, net of tax | 2,369 | (5,209) |
| Other comprehensive income (loss) | 3,297 | (9,882) |
| Comprehensive income (loss) | \$ 21,367 | \$ (28,587) |

The specific-identification method is used to determine the cost of securities sold and the amount of unrealized gains and losses reclassified out of accumulated other comprehensive income into earnings. The amount of unrealized gains, net of tax, reclassified out of accumulated other comprehensive income into earnings related to the sales and maturities of available-for-sale securities for the three months ended March 31, 2011 and 2010 were \$0.1 million and \$2.5 million, respectively.

NOTE 3 INCOME TAXES

At the end of each interim period, the Company makes its best estimate of the annual expected effective tax rate and applies that rate to its ordinary year-to-date earnings or loss. The income tax provision or benefit related to significant, unusual, or extraordinary items, if applicable, 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 pre-tax income (or loss) for the year, projections of the proportion of income (and/or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of the realizability of deferred tax assets generated in the current year. The accounting estimates used to compute the provision or benefit for income taxes may change as new events occur, more experience is acquired, additional information is obtained or our tax environment changes. To the extent that the expected annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in income tax provision for the quarter in which the change occurs.

For the three months ended March 31, 2011, the Company recorded an income tax provision for continuing operations of \$16.0 million, which represents an effective tax rate of 44%. The tax rate for the three months ended March 31, 2011 is higher than the federal statutory rate of 35% due principally to interest for income tax contingencies and state taxes, partially offset by foreign income taxed at lower rates. For the three months ended March 31, 2010, the Company recorded an income tax provision for continuing operations of \$6.1 million on a pre-tax loss of \$8.5 million. The continuing operations income tax provision, despite a pre-tax loss, is due principally to a valuation allowance on the deferred tax asset created by the impairment charge for our investment in The HealthCentral Network, Inc. ("HealthCentral"), interest on income tax contingencies and state taxes.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (Continued)

At March 31, 2011 and December 31, 2010, unrecognized tax benefits, including interest, are \$490.2 million and \$487.6 million, respectively. Of the total unrecognized tax benefits at March 31, 2011, \$478.2 million is included in "non-current income taxes payable," \$11.9 million relates to deferred tax assets included in "other non-current assets" and \$0.1 million is included in "accrued expenses and other current liabilities." Included in unrecognized tax benefits at March 31, 2011 is \$98.4 million relating to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. If unrecognized tax benefits at March 31, 2011 are subsequently recognized, \$106.1 million and \$208.7 million, net of related deferred tax assets and interest, would reduce income tax provision for continuing operations and discontinued operations, respectively. In addition, a continuing operations income tax provision of \$4.3 million would be required upon the subsequent recognition of unrecognized tax benefits for an increase in the Company's valuation allowance against certain deferred tax assets.

The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax provision. Included in income tax provision for continuing operations and discontinued operations for the three months ended March 31, 2011 is a \$2.1 million expense and a \$1.5 million expense, respectively, net of related deferred taxes of \$1.3 million and \$0.9 million, respectively, for interest on unrecognized tax benefits. At March 31, 2011 and December 31, 2010, the Company has accrued \$103.6 million and \$97.7 million, respectively, for the payment of interest. At March 31, 2011 and December 31, 2010, the Company has accrued \$5.0 million 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 income and deductions and the allocation of income and deductions among various tax jurisdictions. The Internal Revenue Service ("IRS") has completed its review of the Company's tax returns for the years ended December 31, 2001 through 2003 and the proposed settlement has been submitted to the Joint Committee of Taxation for approval. The IRS is currently examining the Company's tax returns for the years ended December 31, 2004 through 2006. The statute of limitations for the years 2001 through 2006 has currently been extended to December 31, 2012. Various state, local and foreign jurisdictions are currently under examination, the most significant of which are California, New York and New York City for various tax years beginning with December 31, 2003. Income taxes payable include reserves considered sufficient to pay assessments that may result from examination of prior year tax returns. Changes to reserves from period to period and differences between amounts paid, if any, upon resolution of issues raised in audits and amounts previously provided may be material. Differences between the reserves for income 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 decrease by \$64.3 million within twelve months of the current reporting date, of which approximately \$15.7 million could decrease income tax provision, primarily due to settlements, expirations of statutes of limitation, and the reversal of deductible temporary differences that will primarily result in a corresponding decrease in net deferred tax assets. An estimate of other changes in unrecognized tax benefits, while potentially significant, cannot be made.

NOTE 4 BUSINESS COMBINATION

On January 20, 2011, Match acquired OkCupid for \$50.0 million in cash, plus potential additional consideration that is contingent upon OkCupid's 2011 earnings performance. The amount of the additional contingent consideration ranges from \$0 to \$40.0 million. The fair value of the contingent consideration arrangement at the acquisition date was \$40.0 million and is included in "Accrued

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 BUSINESS COMBINATION (Continued)

expenses and other current liabilities" in the accompanying consolidated balance sheet at March 31, 2011. The Company estimated the fair value of the contingent consideration using a probability weighted earnings model, which incorporates significant unobservable inputs.

NOTE 5 MARKETABLE SECURITIES

At March 31, 2011, available-for-sale marketable securities are as follows (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
| Corporate debt securities States of the U.S. and state political subdivisions | \$ 217,940 | \$ 701 | \$ (19) | \$ 218,622 |
| U.S. Treasury securities | 110,192 | 407 | (100) | 110,499 |
| | 124,937 | 25 | | 124,962 |
| Total debt securities | 453,069 | 1,133 | (119) | 454,083 |
| Equity security | 10,224 | 4,583 | | 14,807 |
| Total marketable securities | \$ 463,293 | \$ 5,716 | \$ (119) | \$ 468,890 |

At December 31, 2010, available-for-sale marketable securities are as follows (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
| Corporate debt securities States of the U.S. and state political subdivisions | \$ 237,406 | \$ 773 | \$ (16) | \$ 238,163 |
| U.S. Treasury securities | 110,478 | 373 | (230) | 110,621 |
| | 199,881 | 18 | | 199,899 |
| Total debt securities | 547,765 | 1,164 | (246) | 548,683 |
| Equity securities | 12,896 | 2,418 | | 15,314 |
| Total marketable securities | \$ 560,661 | \$ 3,582 | \$ (246) | \$ 563,997 |

The net unrealized gains in the tables above are included in accumulated other comprehensive income for their respective periods.

The contractual maturities of debt securities classified as available-for-sale at March 31, 2011 are as follows (in thousands):

| | Amortized Cost | Estimated Fair Value |
|--|-------------------|-------------------------|
| Due in one year or less | \$ 359,970 | \$ 360,676 |
| Due after one year through five years | 93,099 | 93,407 |
| Total | \$ 453,069 | \$ 454,083 |

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 MARKETABLE SECURITIES (Continued)

The following table summarizes investments in marketable securities that have been in a continuous unrealized loss position for less than twelve months (in thousands):

| | March 31, 2011 | | December 31, 2010 | |
|---|------------------|-------------------------|-------------------|-------------------------|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Corporate debt securities | \$ 14,848 | \$ (19) | \$ 34,552 | \$ (16) |
| States of the U.S. and state political subdivisions | 15,665 | (100) | 39,171 | (230) |
| Total | \$ 30,513 | \$ (119) | \$ 73,723 | \$ (246) |

At March 31, 2011 and December 31, 2010, there are no investments in marketable securities that have been in a continuous unrealized loss position for twelve months or longer.

Substantially all of the Company's debt securities are rated investment grade. Because the Company does not intend to sell any marketable securities and it is not more likely than not that the Company will be required to sell any marketable securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider any of its marketable securities to be other-than-temporarily impaired at March 31, 2011.

The following table presents the proceeds from sales and maturities of available-for-sale marketable securities and the related gross realized gains and losses (in thousands):

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2011 | 2010 |
| Proceeds from sales and maturities of available-for-sale marketable securities | \$ 198,765 | \$ 200,990 |
| Gross realized gains | 894 | 4,249 |
| Gross realized losses | (18) | |

Gross realized gains and losses from the sale of marketable securities and from the sale of investments are included in "Other income, net" in the accompanying consolidated statement of operations.

NOTE 6 EQUITY METHOD INVESTMENTS IN UNCONSOLIDATED AFFILIATES

At March 31, 2011 and December 31, 2010, the carrying values of the Company's investments in unconsolidated affiliates accounted for under the equity method totaled \$150.9 million and \$148.6 million, respectively, and are included in "Long-term investments" in the accompanying consolidated balance sheet.

During the first quarter of 2010, the Company recorded an \$18.3 million impairment charge to write-down its investment in HealthCentral to fair value. The decline in value was determined to be other-than-temporary due to HealthCentral's continued losses and negative operating cash flows, which are due, in part, to macroeconomic and industry specific factors. The valuation of our investment in HealthCentral reflected the Company's assessment of these factors. The Company estimated the fair value of its investment in HealthCentral using a multiple of revenue approach in the context of a different valuation environment than that which prevailed when our initial investment was made. The Company records its share of the results of HealthCentral on a one-quarter lag and, along with the related impairment charge, includes it within "Equity in losses of unconsolidated affiliates" in the accompanying consolidated statement of operations.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 FAIR VALUE MEASUREMENTS

The Company categorizes its assets and liabilities measured at fair value into a fair value hierarchy that prioritizes the inputs used in pricing the asset or liability. The three levels of the fair value hierarchy are:

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

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are derived principally from or corroborated by observable market data. The fair value of the Company's level 2 financial assets is primarily obtained from observable market prices for identical underlying securities that may not be actively traded. Certain of these securities may have different market prices from multiple market data sources, in which case a weighted average market price is used.

Level 3: Unobservable inputs for which there is little or no market data and require the Company to develop its own assumptions, based on the best information available in the circumstances, about the assumptions market participants would use in pricing the asset or liability. See below for a discussion of assets measured at fair value using level 3 inputs.

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

| | March 31, 2011 | | | |
|---|---|---|--|-------------------------------------|
| | Quoted Market Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value Measurements |
| (In thousands) | | | | |
| Assets: | | | | |
| Cash equivalents: | | | | |
| Treasury and government agency money market funds | \$ 386,478 | \$ | \$ | \$ 386,478 |
| Commercial paper | | 289,088 | | 289,088 |
| Time deposits | | 25,650 | | 25,650 |
| Marketable securities: | | | | |
| Corporate debt securities | | 218,622 | | 218,622 |
| States of the U.S. and state political subdivisions | | 110,499 | | 110,499 |
| U.S. Treasury securities | 124,962 | | | 124,962 |
| Equity security | 14,807 | | | 14,807 |
| Long-term investments: | | | | |
| Auction rate security | | | 9,050 | 9,050 |
| Total | \$ 526,247 | \$ 643,859 | \$ 9,050 | \$ 1,179,156 |
| Liabilities: | | | | |
| Contingent consideration arrangement | \$ | \$ | \$ 40,000 | \$ 40,000 |
| Total | \$ | \$ | \$ 40,000 | \$ 40,000 |

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

| | December 31, 2010 | | | Total Fair Value Measurements |
|---|---|---|--|-------------------------------------|
| | Quoted Market Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| (In thousands) | | | | |
| Assets: | | | | |
| Cash equivalents: | | | | |
| Treasury and government agency money market funds | \$ 275,108 | \$ | \$ | \$ 275,108 |
| Commercial paper | | 309,183 | | 309,183 |
| Time deposits | | 26,050 | | 26,050 |
| Marketable securities: | | | | |
| Corporate debt securities | | 238,163 | | 238,163 |
| States of the U.S. and state political subdivisions | | 110,621 | | 110,621 |
| U.S. Treasury securities | 199,899 | | | 199,899 |
| Equity security | 15,314 | | | 15,314 |
| Long-term investments: | | | | |
| Auction rate securities | | | 13,100 | 13,100 |
| Total | \$ 490,321 | \$ 684,017 | \$ 13,100 | \$ 1,187,438 |

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

| | Three Months Ended March 31, | | |
|--|------------------------------|--|----------------------------|
| | 2011 | Contingent Consideration Arrangement | 2010 |
| | Auction Rate Securities | | Auction Rate Securities |
| (In thousands) | | | |
| Balance at January 1 | \$ 13,100 | \$ | \$ 12,635 |
| Total net gains (realized and unrealized): | | | |
| Included in other comprehensive income | 950 | | 785 |
| Fair value at date of acquisition | | 40,000 | |
| Settlements | (5,000) | | |
| Balance at March 31 | \$ 9,050 | \$ 40,000 | \$ 13,420 |

There are no gains or losses included in earnings for the three months ended March 31, 2011 and 2010, relating to the Company's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

Auction rate securities

Historically, the Company's auction rate securities ("ARS") had determinable market values arising from the auction process. However, these auctions began to fail in the third quarter of 2007. As a result of these failed auctions, the ARS no longer have readily determinable market values and are instead valued by discounting the estimated future cash flow streams of the securities over the lives of the securities. Credit spreads and other risk factors are also considered in establishing a fair value. During the first quarter of 2011, one of the ARS was redeemed at its par value of \$5.0 million. The cost basis of ARS is \$10.0 million and \$15.0 million at March 31, 2011 and December 31, 2010, respectively, with gross unrealized losses of \$1.0 million and \$1.9 million at March 31, 2011 and December 31, 2010, respectively. At March 31, 2011, the remaining auction rate security is rated A/WR. Due to its high credit rating and because the Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell this security before recovery of its amortized cost basis, which may be maturity, the Company does not consider the auction rate security to be other-than-temporarily impaired at March 31, 2011. The unrealized losses are included in "Accumulated other comprehensive income" in the accompanying consolidated balance sheet. The remaining auction rate security matures in 2035.

Contingent consideration arrangement

See Note 4 for information regarding the contingent consideration arrangement.

Assets measured at fair value on a nonrecurring basis

The Company's non-financial assets, such as goodwill, intangible assets and property and equipment, as well as equity and cost method investments, are measured at fair value only when an impairment charge is recognized. Such impairment charges incorporate fair value measurements predominantly based on Level 3 inputs. See Note 6 for a description of an impairment charge recorded in the first quarter of 2010 related to an equity method investment.

NOTE 8 FINANCIAL INSTRUMENTS

The fair values of the financial instruments listed below have been determined by the Company using available market information and appropriate valuation methodologies.

| | March 31, 2011 | | December 31, 2010 | |
|--|----------------|------------|-------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | (In thousands) | | | |
| Cash and cash equivalents | \$ 848,595 | \$ 848,595 | \$ 742,099 | \$ 742,099 |
| Marketable securities | 468,890 | 468,890 | 563,997 | 563,997 |
| Auction rate securities | 9,050 | 9,050 | 13,100 | 13,100 |
| Notes receivable | 3,289 | 2,728 | 3,316 | 2,818 |
| Contingent consideration arrangement | (40,000) | (40,000) | | |
| Long-term debt | (95,844) | (85,036) | (95,844) | (83,363) |
| Guarantee of equity method investee debt | (4,000) | (4,000) | | |
| Letters of credit and surety bond | N/A | (346) | N/A | (362) |

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 FINANCIAL INSTRUMENTS (Continued)

The carrying value of cash equivalents approximates fair value due to their short-term maturity. The fair value of notes receivable is based on discounting the expected future cash flow streams using yields of the underlying credit. The fair value of long-term debt is estimated using quoted market prices or indices for similar liabilities and taking into consideration other factors such as credit quality and maturity. The fair value of the letters of credit and surety bond are based on the present value of the costs associated with maintaining these instruments over their expected term. See Note 5 for discussion of the fair value of marketable securities, Note 7 for discussion of the fair value of the auction rate securities and Note 4 for discussion of the fair value of the contingent consideration arrangement.

In connection with the formation of The Newsweek Daily Beast Company joint venture on January 31, 2011, the Company guaranteed, on a recourse basis, 50% of The Newsweek Daily Beast Company's \$10.0 million line of credit. At March 31, 2011, \$8.0 million had been drawn on this line of credit. The carrying value of the Company's investment in this joint venture is \$(5.1) million, which includes the Company's proportionate share of the guarantee. The carrying value of the investment is included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheet at March 31, 2011.

At March 31, 2011 and December 31, 2010, the carrying values of the Company's investments accounted for under the cost method totaled \$39.2 million and \$39.0 million, respectively, and are included in "Long-term investments" in the accompanying consolidated balance sheet. The Company evaluates each cost method investment for impairment on a quarterly basis and recognizes an impairment loss if a decline in value is determined to be other-than-temporary. Such impairment evaluations include, but are not limited to: the current business environment, including competition; going concern considerations such as financial condition, the rate at which the investee company utilizes cash and the investee company's ability to obtain additional financing to achieve its business plan; the need for changes to the investee company's existing business model due to changing business environments and its ability to successfully implement necessary changes; and comparable valuations. If the Company has not identified events or changes in circumstances that may have a significant adverse effect on the fair value of a cost method investment, then the fair value of such cost method investment is not estimated, as it is impracticable to do so.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 EARNINGS (LOSS) PER SHARE

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

| | Three Months Ended March 31, | | | |
|---|------------------------------|-----------|-------------|-------------|
| | 2011 | | 2010 | |
| | Basic | Diluted | Basic | Diluted |
| (In thousands, except per share data) | | | | |
| Numerator: | | | | |
| Earnings (loss) from continuing operations | \$ 20,168 | \$ 20,168 | \$ (14,597) | \$ (14,597) |
| Net (earnings) loss attributable to noncontrolling interests | (150) | (150) | 619 | 619 |
| Earnings (loss) from continuing operations attributable to IAC shareholders | 20,018 | 20,018 | (13,978) | (13,978) |
| Loss from discontinued operations, net of tax | (1,948) | (1,948) | (4,727) | (4,727) |
| Net earnings (loss) attributable to IAC shareholders | \$ 18,070 | \$ 18,070 | \$ (18,705) | \$ (18,705) |
| Denominator: | | | | |
| Weighted average basic shares outstanding | 89,081 | 89,081 | 116,446 | 116,446 |
| Dilutive securities including stock options, warrants, RSUs and PSUs(a)(b) | | 4,595 | | |
| Denominator for earnings per share weighted average shares(a)(b) | 89,081 | 93,676 | 116,446 | 116,446 |
| Earnings (loss) per share attributable to IAC shareholders: | | | | |
| Earnings (loss) per share from continuing operations | \$ 0.22 | \$ 0.21 | \$ (0.12) | \$ (0.12) |
| Discontinued operations, net of tax | (0.02) | (0.02) | (0.04) | (0.04) |
| Earnings (loss) per share | \$ 0.20 | \$ 0.19 | \$ (0.16) | \$ (0.16) |

(a) If the effect is dilutive, weighted average common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options and warrants and vesting of restricted stock units ("RSUs") and performance stock units ("PSUs"). For the three months ended March 31, 2011, approximately 12.4 million shares related to potentially dilutive securities are excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

(b) For the three months ended March 31, 2010, the Company had a loss from continuing operations and as a result, no potentially dilutive securities were included in the denominator for computing dilutive earnings per share because the impact would have been anti-dilutive. Accordingly, the weighted average basic shares outstanding were used to compute all earnings per share amounts. For the three months ended March 31, 2010, approximately 39.0 million shares related to potentially dilutive securities were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

NOTE 10 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

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 SEGMENT INFORMATION (Continued)

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 services or products offered or the target market. Entities included in discontinued operations are excluded from the tables below. Operating segments are combined for reporting purposes if they meet certain aggregation criteria, which principally relate to the similarity of their economic characteristics or, in the case of Media & Other, do not meet the quantitative thresholds that require presentation as separate operating segments.

| | Three Months Ended March 31, | |
|---------------------------|---------------------------------|-------------------|
| | 2011 | 2010 |
| | (In thousands) | |
| Revenue: | | |
| Search | \$ 248,604 | \$ 198,961 |
| Match | 111,597 | 89,275 |
| ServiceMagic | 46,293 | 42,212 |
| Media & Other | 54,280 | 48,115 |
| Inter-segment elimination | (561) | (385) |
| Total | \$ 460,213 | \$ 378,178 |

| | Three Months Ended March 31, | |
|---------------------------------|---------------------------------|-----------------|
| | 2011 | 2010 |
| | (In thousands) | |
| Operating Income (Loss): | | |
| Search | \$ 49,088 | \$ 31,057 |
| Match | 23,429 | 13,702 |
| ServiceMagic | 3,808 | 2,396 |
| Media & Other | (3,724) | (3,812) |
| Corporate | (35,265) | (34,418) |
| Total | \$ 37,336 | \$ 8,925 |

| | Three Months Ended March 31, | |
|--|---------------------------------|------------------|
| | 2011 | 2010 |
| | (In thousands) | |
| Operating Income Before Amortization: | | |
| Search | \$ 49,386 | \$ 31,541 |
| Match | 24,988 | 14,806 |
| ServiceMagic | 4,177 | 2,859 |
| Media & Other | (3,366) | (2,396) |
| Corporate | (15,231) | (13,166) |
| Total | \$ 59,954 | \$ 33,644 |

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 SEGMENT INFORMATION (Continued)

| | Three Months Ended March 31, | |
|----------------------|---------------------------------|------------------|
| | 2011 | 2010 |
| | (In thousands) | |
| Depreciation: | | |
| Search | \$ 6,981 | \$ 9,063 |
| Match | 2,300 | 3,028 |
| ServiceMagic | 1,070 | 918 |
| Media & Other | 809 | 540 |
| Corporate | 2,279 | 2,244 |
| Total | \$ 13,439 | \$ 15,793 |

Revenue by geography is based on where the customer is located. Geographic information about the United States and international territories is presented below:

| | Three Months Ended March 31, | |
|---------------------|---------------------------------|-------------------|
| | 2011 | 2010 |
| | (In thousands) | |
| Revenue: | | |
| United States | \$ 372,662 | \$ 314,442 |
| All other countries | 87,551 | 63,736 |
| Total | \$ 460,213 | \$ 378,178 |

| | March 31, | December 31, |
|--|-------------------|-------------------|
| | 2011 | 2010 |
| | (In thousands) | |
| Long-lived assets (excluding goodwill and intangible assets): | | |
| United States | \$ 261,643 | \$ 267,060 |
| All other countries | 926 | 868 |
| Total | \$ 262,569 | \$ 267,928 |

The Company's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization and impairment of intangibles, (3) goodwill impairment, (4) pro forma adjustments for significant acquisitions, and (5) one-time items. The Company believes this measure is useful to investors because it represents the 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 and acquisition-related accounting. IAC endeavors to compensate for the limitations of the non-U.S. GAAP measure presented by providing the comparable U.S. GAAP measure with equal or greater prominence, financial statements prepared in accordance with U.S. GAAP and descriptions of the reconciling items, including quantifying such items, to derive the non-U.S. GAAP measure.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 SEGMENT INFORMATION (Continued)

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

| | Three Months Ended March 31, 2011 | | | |
|---|--|-------------------------------------|--------------------------------|-------------------------------|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Income (Loss) |
| Search | \$ 49,386 | \$ | \$ (298) | \$ 49,088 |
| Match | 24,988 | | (1,559) | 23,429 |
| ServiceMagic | 4,177 | | (369) | 3,808 |
| Media & Other | (3,366) | (127) | (231) | (3,724) |
| Corporate | (15,231) | (20,034) | | (35,265) |
| Total | \$ 59,954 | \$ (20,161) | \$ (2,457) | 37,336 |
| Equity in losses of unconsolidated affiliates | | | | (1,879) |
| Other income, net | | | | 752 |
| Earnings from continuing operations before income taxes | | | | 36,209 |
| Income tax provision | | | | (16,041) |
| Earnings from continuing operations | | | | 20,168 |
| Loss from discontinued operations, net of tax | | | | (1,948) |
| Net earnings | | | | 18,220 |
| Net earnings attributable to noncontrolling interests | | | | (150) |
| Net earnings attributable to IAC shareholders | | | | \$ 18,070 |

| | Three Months Ended March 31, 2010 | | | |
|---|--|-------------------------------------|--------------------------------|-------------------------------|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Income (Loss) |
| Search | \$ 31,541 | \$ (147) | \$ (337) | \$ 31,057 |
| Match | 14,806 | (26) | (1,078) | 13,702 |
| ServiceMagic | 2,859 | | (463) | 2,396 |
| Media & Other | (2,396) | (120) | (1,296) | (3,812) |
| Corporate | (13,166) | (21,252) | | (34,418) |
| Total | \$ 33,644 | \$ (21,545) | \$ (3,174) | 8,925 |
| Equity in losses of unconsolidated affiliates | | | | (22,613) |
| Other income, net | | | | 5,236 |
| Loss from continuing operations before income taxes | | | | (8,452) |
| Income tax provision | | | | (6,145) |
| Loss from continuing operations | | | | (14,597) |

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| | |
|---|-------------|
| Loss from discontinued operations, net of tax | (4,727) |
| Net loss | (19,324) |
| Net loss attributable to noncontrolling interests | 619 |
| Net loss attributable to IAC shareholders | \$ (18,705) |

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 CONTINGENCIES

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

NOTE 12 SUPPLEMENTAL CASH FLOW INFORMATION

Non-Cash Transactions for the Three Months Ended March 31, 2011

On February 8, 2011, in connection with the tax-free exchange with Liberty Media Corporation in the fourth quarter of 2010, the Company received 0.1 million shares of IAC common stock, valued at \$2.9 million, in fulfillment of post-closing working capital adjustments.

On January 31, 2011, IAC contributed The Daily Beast, previously reported in IAC's Media & Other segment, to a newly formed venture with Harman Newsweek called The Newsweek Daily Beast Company. Pursuant to this transaction, IAC and Harman Newsweek each own 50% of The Newsweek Daily Beast Company and operate it jointly.

The consideration for the acquisition of OkCupid on January 20, 2011 includes a contingent consideration arrangement which is described in Note 4.

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

IAC is a leading internet company with more than 50 brands serving consumer audiences across more than 30 countries. Our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. IAC includes the businesses comprising its Search segment; its Match and ServiceMagic segments; the businesses comprising its Media & Other segment; as well as investments in unconsolidated affiliates.

For a more detailed description of the Company's operating businesses, see the Company's annual report on Form 10-K for the year ended December 31, 2010.

Results of Operations for the three months ended March 31, 2011 compared to the three months ended March 31, 2010

Set forth below are the contributions made by our various segments and corporate operations to consolidated revenue, operating income (loss) and Operating Income Before Amortization (as defined in IAC's Principles of Financial Reporting) for the three months ended March 31, 2011 and 2010 (dollars in thousands).

| | Three Months Ended March 31, | | |
|---------------------------|-------------------------------------|---------------|-------------------|
| | 2011 | Growth | 2010* |
| Revenue: | | | |
| Search | \$ 248,604 | 25% | \$ 198,961 |
| Match | 111,597 | 25% | 89,275 |
| ServiceMagic | 46,293 | 10% | 42,212 |
| Media & Other | 54,280 | 13% | 48,115 |
| Inter-segment elimination | (561) | (46)% | (385) |
| Total | \$ 460,213 | 22% | \$ 378,178 |

| | Three Months Ended March 31, | | |
|---------------------------------|-------------------------------------|---------------|-----------------|
| | 2011 | Growth | 2010* |
| Operating Income (Loss): | | | |
| Search | \$ 49,088 | 58% | \$ 31,057 |
| Match | 23,429 | 71% | 13,702 |
| ServiceMagic | 3,808 | 59% | 2,396 |
| Media & Other | (3,724) | 2% | (3,812) |
| Corporate | (35,265) | (2)% | (34,418) |
| Total | \$ 37,336 | 318% | \$ 8,925 |

| | Three Months Ended March 31, | | |
|--|------------------------------|------------|------------------|
| | 2011 | Growth | 2010* |
| Operating Income Before Amortization: | | | |
| Search | \$ 49,386 | 57% | \$ 31,541 |
| Match | 24,988 | 69% | 14,806 |
| ServiceMagic | 4,177 | 46% | 2,859 |
| Media & Other | (3,366) | (40)% | (2,396) |
| Corporate | (15,231) | (16)% | (13,166) |
| Total | \$ 59,954 | 78% | \$ 33,644 |

*

In the fourth quarter of 2010, IAC exchanged (on a tax-free basis) our Evite, Gifts.com and IAC Advertising Solutions businesses and cash for substantially all of Liberty Media Corporation's ("Liberty") equity stake in IAC and InstantAction ceased operations. Accordingly, the results of these businesses, which were all previously reported in IAC's Media & Other segment are excluded from the tables above and are presented as discontinued operations.

Refer to Note 10 to the consolidated financial statements for reconciliations by segment of Operating Income Before Amortization to operating income (loss).

Consolidated Results

Revenue

| | Three Months Ended March 31, | | |
|------------------------|------------------------------|----------|------------|
| | 2011 | % Change | 2010 |
| (Dollars in thousands) | | | |
| Revenue | \$ 460,213 | 22% | \$ 378,178 |

Revenue in 2011 increased \$82.0 million from 2010 primarily as a result of revenue increases of \$49.6 million from Search, \$22.3 million from Match, \$6.2 million from Media & Other and \$4.1 million from ServiceMagic. The increase in revenue from Search reflects strong growth from Mindspark's B2B and proprietary operations as well as improvements from destination websites and CityGrid Media. The increase in revenue from Match reflects strong growth from Match.com U.S., People Media and Chemistry.com (collectively referred to as "Core"). Also contributing to the increase in revenue from Match is the full quarter contribution of Singlesnet, acquired March 2, 2010, Match's venture with Meetic in Latin America, which was not in the prior year period, and OkCupid, acquired January 20, 2011. The increase in revenue from Media & Other was driven by growth at Shoebuy, Notional, Electus and Vimeo, partially offset by a decline at Pronto and the inclusion in 2010 of revenue associated with profit participations related to our former interest in Reveille. The increase in revenue from ServiceMagic benefited from growth in both its domestic and international operations.

A substantial portion of the Company's revenue is attributable to online advertising. A significant majority of the Company's online advertising revenue is attributable to a paid listing supply agreement with Google Inc. ("Google"). On April 8, 2011, this agreement was amended and extended through March 31, 2016. For the three months ended March 31, 2011 and 2010, revenue earned from Google is \$214.9 million and \$171.5 million, respectively. The majority of this revenue is earned by the businesses comprising the Search segment.

Cost of revenue

| | Three Months Ended March 31, | | |
|----------------------------|-------------------------------------|-----------------|-------------|
| | 2011 | % Change | 2010 |
| | (Dollars in thousands) | | |
| Cost of revenue | \$ 172,718 | 32% | \$ 131,149 |
| As a percentage of revenue | 38% | 285 bp | 35% |

bp

= basis points

Cost of revenue consists primarily of traffic acquisition costs. Traffic acquisition costs consist of payments made to partners who distribute Mindspark's customized browser-based applications, integrate our paid listings into their websites or direct traffic to our websites. These payments include amounts based on revenue share and other arrangements. Cost of revenue also includes Shoebuy's cost of products sold and shipping and handling costs, as well as expenses associated with the operation of the Company's data centers, including compensation and other employee-related costs (including stock-based compensation) for personnel engaged in data center functions, rent, energy and bandwidth costs, and content acquisition costs.

Cost of revenue in 2011 increased \$41.6 million from 2010 primarily due to increases of \$27.9 million from Search, \$8.2 million from Media & Other and \$4.2 million from Match. The increase in cost of revenue from Search was primarily due to an increase of \$24.5 million in traffic acquisition costs related to the increase in revenue. As a percentage of revenue, traffic acquisition costs increased over the prior year due to an increase in the proportion of revenue from customized browser-based applications and other arrangements with third parties who direct traffic to our websites. Cost of revenue from Media & Other increased due to an increase of \$3.2 million in the cost of products sold and \$1.1 million in shipping and handling costs at Shoebuy resulting from increased sales and higher fuel costs. Also contributing to the increase in cost of sales from Media & Other are increases from Notional and Electus, partially offset by a decrease from The Daily Beast which, following the formation of The Newsweek Daily Beast Company joint venture with Harman Newsweek on January 31, 2011, has been accounted for as an equity method investment. The increase in cost of revenue from Match was primarily due to the acquisition of Singlesnet and the formation of the Latin America venture, which was not in the prior year period, as well as an increase in compensation and other employee-related costs, due in part, to an increase in average headcount.

Selling and marketing expense

| | Three Months Ended March 31, | | |
|-------------------------------|-------------------------------------|-----------------|-------------|
| | 2011 | % Change | 2010 |
| | (Dollars in thousands) | | |
| Selling and marketing expense | \$ 140,250 | 8% | \$ 130,381 |
| As a percentage of revenue | 30% | (400) bp | 34% |

Selling and marketing expense consists primarily of advertising and promotional expenditures and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in sales, sales support and customer service functions. Advertising and promotional expenditures include online marketing, including fees paid to search engines and third parties that distribute Mindspark's downloadable applications, and offline marketing, including television and radio advertising.

Selling and marketing expense in 2011 increased \$9.9 million from 2010 primarily due to increases of \$6.8 million from Match and \$5.7 million from Search, partially offset by a decrease of \$2.3 million from Media & Other. The increase in selling and marketing expense from Match is due to an increase of \$7.2 million in advertising and promotional expenditures, due in part, to advertising spend associated

with an agreement entered into during the second quarter of 2010 with Yahoo! Inc. and the formation of the Latin America venture, which was not in the prior year period. The increase in selling and marketing expense from Search is due to an increase of \$6.4 million in advertising and promotional expenditures, driven primarily by marketing efforts related to new product launches at Mindspark, partially offset by a decrease in compensation and other employee-related costs. Selling and marketing expense from Media & Other decreased primarily due to lower online marketing costs at Pronto.

General and administrative expense

| | Three Months Ended March 31, | | |
|------------------------------------|-------------------------------------|-----------------|-------------|
| | 2011 | % Change | 2010 |
| | (Dollars in thousands) | | |
| General and administrative expense | \$ 76,291 | 3% | \$ 73,964 |
| As a percentage of revenue | 17% | (298) bp | 20% |

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

General and administrative expense in 2011 increased \$2.3 million from 2010 primarily due to increases of \$1.9 million from ServiceMagic, \$1.0 million from Match and \$0.9 million from Media & Other, partially offset by a decrease of \$1.7 million from Search. General and administrative expense at ServiceMagic increased primarily due to the inclusion in 2010 of a reversal of a \$1.5 million provision for contingent consideration related to the 2009 acquisition of Market Hardware, which was not earned. The increase in general and administrative expense from Match is primarily due to an increase in professional fees. The increase in general and administrative expense from Media & Other is principally due to Electus, Proust and Mobile Hatch, which was not in the prior year period, partially offset by The Daily Beast, which has been accounted for as an equity method investment from January 31, 2011 as described above. The decrease in general and administrative expense from Search is primarily due to a decrease in litigation related expenses.

Product development expense

| | Three Months Ended March 31, | | |
|-----------------------------|-------------------------------------|-----------------|-------------|
| | 2011 | % Change | 2010 |
| | (Dollars in thousands) | | |
| Product development expense | \$ 17,722 | 20% | \$ 14,792 |
| As a percentage of revenue | 4% | (6) bp | 4% |

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

Product development expense in 2011 increased \$2.9 million from 2010 primarily due to increases of \$1.8 million from Search and \$0.9 million from Match. Contributing to the increase in product development expense at Search is a decrease in costs being capitalized in the current year period as compared to the prior year period related to the development and enhancement of IAC Search & Media's product offerings and related technology, partially offset by lower compensation and other employee-related costs, due in part, to the Ask.com restructuring that took place during the fourth quarter of 2010. The increase in product development expense from Match is primarily due to an increase in compensation and other employee-related costs.

Depreciation

| | Three Months Ended March 31, | | |
|----------------------------|------------------------------|----------|-----------|
| | 2011 | % Change | 2010 |
| | (Dollars in thousands) | | |
| Depreciation expense | \$ 13,439 | (15)% | \$ 15,793 |
| As a percentage of revenue | 3% | (126) bp | 4% |

Depreciation in 2011 decreased \$2.4 million from 2010 primarily due to the write-off of certain capitalized software costs associated with the Ask.com restructuring that took place in the fourth quarter of 2010.

Operating Income Before Amortization

| | Three Months Ended March 31, | | |
|--------------------------------------|------------------------------|----------|-----------|
| | 2011 | % Change | 2010 |
| | (Dollars in thousands) | | |
| Operating Income Before Amortization | \$ 59,954 | 78% | \$ 33,644 |
| As a percentage of total revenue | 13% | 413 bp | 9% |

Operating Income Before Amortization in 2011 increased \$26.3 million from 2010 primarily due to increases of \$17.8 million from Search and \$10.2 million from Match. The increase in Operating Income Before Amortization reflects, in each case, higher revenue, as well as lower depreciation from Search and lower selling and marketing expense as a percentage of revenue from Match.

Operating income

| | Three Months Ended March 31, | | |
|----------------------------|------------------------------|----------|----------|
| | 2011 | % Change | 2010 |
| | (Dollars in thousands) | | |
| Operating income | \$ 37,336 | 318% | \$ 8,925 |
| As a percentage of revenue | 8% | 575 bp | 2% |

Operating income in 2011 increased \$28.4 million from 2010 primarily due to an increase of \$26.3 million in Operating Income Before Amortization described above and decreases of \$1.4 million in non-cash compensation expense and \$0.7 million in amortization of intangibles. The decrease in non-cash compensation expense is primarily related to awards becoming fully vested subsequent to the first quarter of 2010, partially offset by the reassessment made in the fourth quarter of 2010 of the number of performance based restricted stock units that will ultimately vest.

At March 31, 2011, there was \$148.4 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is expected to be recognized over a weighted average period of approximately 2.3 years.

Other income (expense)

| | Three Months Ended March 31, | | |
|---|------------------------------|----------|-------------|
| | 2011 | % Change | 2010 |
| | (Dollars in thousands) | | |
| Equity in losses of unconsolidated affiliates | \$ (1,879) | (92)% | \$ (22,613) |
| Other income, net | 752 | (86)% | 5,236 |

Equity in losses of unconsolidated affiliates in 2011 decreased \$20.7 million from 2010 primarily due to the inclusion in 2010 of an \$18.3 million impairment charge to write-down the Company's investment in The HealthCentral Network, Inc. ("HealthCentral") to fair value. Equity in losses of

unconsolidated affiliates in 2011 includes losses related to the Company's investment in The Newsweek Daily Beast Company, partially offset by the positive contribution from our investment in Meetic. The Company recognized a loss in the prior year period related to its investment in Meetic primarily due to the amortization of intangibles, which is required by purchase accounting rules.

Other income, net in 2011 decreased \$4.5 million from 2010 due to the inclusion in 2010 of a gain of \$4.0 million related to the sale of certain securities.

Income tax provision

| Three Months Ended March 31, | | | |
|-------------------------------------|-------------|-----------------|-------------|
| | 2011 | % Change | 2010 |
| (Dollars in thousands) | | | |
| Income tax provision | \$ (16,041) | NM | \$ (6,145) |

In 2011, the Company recorded an income tax provision for continuing operations of \$16.0 million, which represents an effective tax rate of 44%. The 2011 tax rate is higher than the federal statutory rate of 35% due principally to interest for income tax contingencies and state taxes, partially offset by foreign income taxed at lower rates. In 2010, the Company recorded an income tax provision for continuing operations of \$6.1 million on a pre-tax loss of \$8.5 million. The continuing operations income tax provision, despite a pre-tax loss, is due principally to a valuation allowance on the deferred tax asset created by the impairment charge for our investment in HealthCentral, interest on income tax contingencies and state taxes.

At March 31, 2011 and December 31, 2010, the Company has unrecognized tax benefits of \$386.6 million and \$389.9 million, respectively. Unrecognized tax benefits at March 31, 2011 decreased by \$3.3 million from December 31, 2010 due principally to the reversal of state tax reserves based upon the receipt of favorable income tax rulings and a net decrease in deductible temporary differences, partially offset by an increase in reserves related to a cost sharing and buy-in arrangement with a foreign subsidiary. The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax provision. Included in income tax provision for continuing operations and discontinued operations for the three months ended March 31, 2011 is a \$2.1 million expense and a \$1.5 million expense, respectively, net of related deferred taxes of \$1.3 million and \$0.9 million, respectively, for interest on unrecognized tax benefits. At March 31, 2011 and December 31, 2010, the Company has accrued \$103.6 million and \$97.7 million, respectively, for the payment of interest. At March 31, 2011 and December 31, 2010, the Company has accrued \$5.0 million 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 income and deductions and the allocation of income and deductions among various tax jurisdictions. The Internal Revenue Service ("IRS") has completed its review of the Company's tax returns for the years ended December 31, 2001 through 2003 and the proposed settlement has been submitted to the Joint Committee of Taxation for approval. The IRS is currently examining the Company's tax returns for the years ended December 31, 2004 through 2006. The statute of limitations for the years 2001 through 2006 has currently been extended to December 31, 2012. Various state, local and foreign jurisdictions are currently under examination, the most significant of which are California, New York and New York City for various tax years beginning with December 31, 2003. Income taxes payable include reserves considered sufficient to pay assessments that may result from examination of prior year tax returns. Changes to reserves from period to period and differences between amounts paid, if any, upon resolution of issues raised in audits and amounts previously provided may be material. Differences between the reserves for income 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 decrease by \$64.3 million within twelve months of the current reporting date, of which approximately

\$15.7 million could decrease income tax provision, primarily due to settlements, expirations of statutes of limitation, and the reversal of deductible temporary differences that will primarily result in a corresponding decrease in net deferred tax assets. An estimate of other changes in unrecognized tax benefits, while potentially significant, cannot be made.

Discontinued operations

| | Three Months Ended March 31, | | |
|---|-------------------------------------|-----------------|-------------|
| | 2011 | % Change | 2010 |
| | (Dollars in thousands) | | |
| Loss from discontinued operations, net of tax | \$ (1,948) | (59)% | \$ (4,727) |

The 2011 amount is primarily due to interest on income tax contingencies. The 2010 amount is principally due to losses of InstantAction and interest on income tax contingencies and reserves for penalties.

Recoverability of Goodwill and Indefinite-Lived Intangible Assets

Of the Company's six reporting units with goodwill, IAC Search & Media and Shoebuy have fair values closest to their carrying values. The amount of goodwill of each of these two reporting units is \$534.0 million and \$21.7 million, respectively, at March 31, 2011. To illustrate the magnitude of potential impairment charges related to potential future changes in estimated fair values, had the estimated fair values of each of these two reporting units been hypothetically lower by 20% at October 1, 2010, the date of our most recent annual impairment assessment, the carrying values of IAC Search & Media and Shoebuy would have exceeded their fair values by approximately \$9 million and \$3 million, respectively. If operating results of these two businesses vary significantly from anticipated results, future, and in the case of IAC Search & Media, potentially material, impairments of goodwill and/or indefinite-lived intangible assets could occur.

Segment Results

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

Search

Our Search segment includes Mindspark, a digital consumer products business consisting of our proprietary operations through which we develop, market and distribute downloadable applications, and our B2B operations, which provide customized browser-based applications for software and media companies; destination websites, including Ask.com and Dictionary.com, through which we provide search and additional services; and CityGrid Media, an online media company that aggregates and integrates local ads and content and distributes them to publishers across web and mobile platforms.

Revenue increased 25% to \$248.6 million, reflecting strong growth from Mindspark's B2B and proprietary operations as well as improvements from destination websites and CityGrid Media. The revenue growth in Mindspark's B2B operations was driven by increased engagement from existing partners as well as the contribution from new partners while the growth in the proprietary business was driven primarily by the nearly 30 new products launched since the prior year period. The revenue growth in destination websites reflects increased marketing efforts while the growth in CityGrid Media revenue primarily reflects the contribution from new resellers.

Operating Income Before Amortization increased 57% to \$49.4 million, primarily due to the higher revenue noted above and a decrease of \$2.1 million in depreciation, partially offset by increases of \$24.5 million in traffic acquisition costs and \$5.7 million in selling and marketing expense. The decrease in depreciation is primarily due to the write-off of certain capitalized software costs associated with the Ask.com restructuring that took place in the fourth quarter of 2010. The increase in traffic acquisition costs is primarily due to the increase in revenue. As a percentage of revenue, traffic acquisition costs increased over the prior year period due to an increase in the proportion of revenue from customized browser-based applications and other arrangements with third parties who direct traffic to our websites. The increase in selling and marketing expense is primarily due to an increase in advertising and promotional expenditures associated with new product launches at Mindspark, partially offset by a decrease in compensation and other employee-related costs.

Operating income increased 58% to \$49.1 million, primarily due to the increase in Operating Income Before Amortization described above and a slight decrease in non-cash compensation expense.

Match

Revenue increased 25% to \$111.6 million, benefiting from strong growth within its Core and Developing operations. Match's Developing operations consist of OkCupid, Singlesnet, mobile-only products and its international operations. Core revenue increased 18% to \$93.3 million driven by a 22% increase in subscribers. Developing revenue increased 82% to \$18.3 million driven by the full quarter contribution of Singlesnet, as well as from Match's venture with Meetic in Latin America and the acquisition of OkCupid, neither of which were reflected in the prior year period.

Operating Income Before Amortization increased 69% to \$25.0 million, growing at a faster rate than revenue primarily due to lower selling and marketing expense as a percentage of revenue.

Operating income increased 71% to \$23.4 million, primarily due to the increase in Operating Income Before Amortization described above, partially offset by an increase of \$0.5 million in amortization of intangibles.

ServiceMagic

Revenue increased 10% to \$46.3 million, benefiting from growth in its domestic and international operations. Domestically, revenue growth reflects a 9% increase in accepted service requests, which was driven by an 11% increase in service professionals, partially offset by lower average accepted service request fees. Average accepted service request fees were impacted by a shift in mix to lower value service requests. Domestic service requests declined 1% primarily due to reduced marketing efforts in the current year period. Domestic growth also reflects an increase in revenue from website fulfillment and hosting services. ServiceMagic's international revenue growth reflects an 85% increase in accepted service requests. A service request can be transmitted to more than one service professional and is deemed accepted upon transmission.

Operating Income Before Amortization increased 46% to \$4.2 million, primarily due to the higher revenue noted above and a decrease, domestically, of \$1.7 million in selling and marketing expense. The decrease in selling and marketing expense is primarily driven by a decrease of \$1.4 million in advertising and promotional expenditures related principally to offline marketing. Operating Income Before Amortization in 2010 benefited from the reversal of a \$1.5 million provision for contingent consideration related to the 2009 acquisition of Market Hardware, which was not earned.

Operating income increased 59% to \$3.8 million, primarily due to the increase in Operating Income Before Amortization described above and a slight decrease in amortization of intangibles.

Media & Other

Revenue increased 13% to \$54.3 million primarily reflecting growth at Shoebuy, Notional, Electus and Vimeo, partially offset by a decline at Pronto and the inclusion in 2010 of \$3.1 million in revenue associated with profit participations related to our former interest in Reveille.

Operating Income Before Amortization loss increased by \$1.0 million to a loss of \$3.4 million. Losses increased primarily due to the inclusion in 2010 of profit participations related to our former interest in Reveille; reduced profitability at Pronto due to lower revenue; and investments in Hatch Labs, which was not in the prior year period, and Proust. These items more than offset the reduced losses from The Daily Beast, which has been accounted for as an equity method investment following the formation of the Newsweek Daily Beast Company joint venture with Harman Newsweek on January 31, 2011.

Operating loss decreased by \$0.1 million to \$3.7 million, despite the increase in Operating Income Before Amortization loss described above due to a decrease of \$1.1 million in amortization of intangibles.

Corporate

Operating Income Before Amortization loss increased by \$2.1 million to a loss of \$15.2 million reflecting higher compensation and other employee-related costs and the inclusion in 2010 of a non-income tax refund.

Operating loss increased \$0.8 million to \$35.3 million primarily due to the increase in Operating Income Before Amortization loss described above, partially offset by a decrease of \$1.2 million in non-cash compensation expense. The decrease in non-cash compensation expense is primarily related to awards becoming fully vested subsequent to the first quarter of 2010, partially offset by the reassessment made in the fourth quarter of 2010 of the number of performance based restricted stock units that will ultimately vest.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2011, the Company had \$848.6 million of cash and cash equivalents, \$468.9 million of marketable securities and \$95.8 million in long-term debt. Long-term debt consists of \$80.0 million in Liberty Bonds due September 1, 2035 and \$15.8 million in 7% Senior Notes due January 15, 2013.

During the three months ended March 31, 2011, the Company did not purchase any shares of its common stock. In connection with the tax-free exchange with Liberty in the fourth quarter of 2010, the Company received 0.1 million shares of IAC common stock in February 2011 in fulfillment of post-closing working capital adjustments. During the three months ended March 31, 2010, the Company purchased 11.1 million shares of IAC common stock for aggregate consideration, on a trade date basis, of \$245.5 million. On February 26, 2010, the Company's Board of Directors authorized the repurchase of up to 20 million shares of IAC common stock. At April 22, 2011, IAC had approximately 7.2 million shares remaining in its share repurchase authorization. IAC may purchase shares over an indefinite period of time, depending on those factors IAC management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

Net cash provided by operating activities attributable to continuing operations is \$53.9 million and \$56.5 million in 2011 and 2010, respectively. The decrease of \$2.7 million in net cash provided by operating activities attributable to continuing operations is primarily due to the timing of payments related to accounts payable. Further decreasing net cash provided by operating activities attributable to continuing operations is cash income tax refunds in 2010 as compared to cash income tax payments in 2011, partially offset by higher income in 2011.

Net cash provided by investing activities attributable to continuing operations in 2011 of \$43.2 million includes net proceeds of \$92.5 million related to purchases, sales and maturities of marketable debt securities and the proceeds of \$7.8 million primarily related to the redemption of one of the Company's auction rate securities, partially offset by acquisitions, net of cash acquired, of \$48.3 million and capital expenditures of \$8.3 million. Net cash used in investing activities attributable to continuing operations in 2010 of \$107.8 million includes net purchases of \$89.3 million related to the purchases, sales and maturities of marketable debt securities, capital expenditures of \$11.5 million and acquisitions, net of cash acquired, of \$9.8 million, partially offset by the proceeds of \$5.3 million from the sale of certain securities.

Net cash provided by financing activities attributable to continuing operations in 2011 of \$8.6 million includes excess tax benefits from stock-based awards of \$9.7 million. Net cash used in financing activities attributable to continuing operations in 2010 of \$238.9 million includes the purchase of treasury stock of \$246.2 million, partially offset by excess tax benefits from stock-based awards of \$4.8 million.

IAC anticipates that it will need to make capital and other expenditures in connection with the development and expansion of its operations. The Company may make a number of acquisitions which could result in the reduction of its cash and/or marketable securities balance or the incurrence of debt. IAC expects that 2011 capital expenditures will be slightly less than 2010. IAC believes that its cash on hand along with its anticipated operating cash flows in 2011 and its access to capital markets are sufficient to fund its operating needs, capital, investing and other commitments and contingencies for the foreseeable future.

IAC'S PRINCIPLES OF FINANCIAL REPORTING

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

Definition of IAC's Non-GAAP Measure

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

Pro Forma Results

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

One-Time Items

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

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

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

Amortization of intangibles (including impairment of intangibles, if applicable) and goodwill impairment (if applicable) are non-cash expenses relating primarily to acquisitions. At the time of an acquisition, the identifiable definite-lived intangible assets of the acquired company, such as customer

lists, technology and supplier agreements, are valued and amortized over their estimated lives. Value is also assigned to acquired indefinite-lived intangible assets, which comprise trade names and trademarks, and goodwill that are not subject to amortization. An impairment is recorded when the carrying value of an intangible asset or goodwill exceeds its fair value. While it is likely that we will have significant intangible amortization expense as we continue to acquire companies, we believe that intangible assets represent costs incurred by the acquired company to build value prior to acquisition and the related amortization and impairment charges of intangible assets or goodwill, if applicable, are not ongoing costs of doing business.

RECONCILIATION OF OPERATING INCOME BEFORE AMORTIZATION

For a reconciliation of Operating Income Before Amortization to operating income (loss) by business and to net earnings (loss) attributable to IAC shareholders in total for the three months ended March 31, 2011 and 2010, see Note 10 to the consolidated financial statements.

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

Interest Rate Risk

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

Investment Portfolio

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

Based on the Company's total investment in marketable debt securities at March 31, 2011, a 100 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the debt investment securities by \$2.4 million. Such potential increase or decrease in fair value is based on certain simplifying assumptions, including a constant level and rate of debt securities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period. Conversely, since almost all of the Company's cash and cash equivalents balance of \$848.6 million is invested in short-term fixed or variable rate money market instruments, the Company would also earn more (less) interest income due to such an increase (decrease) in interest rates.

Long-term Debt

At March 31, 2011, the Company's outstanding debt is \$95.8 million, all of which pays interest at fixed rates. If market rates decline, the Company runs the risk that the related required payments on the fixed rate debt will exceed those based on market rates. A 100 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase in fair value of the fixed-rate debt by \$10.7 million. Such potential increase or decrease in fair value is based on certain simplifying assumptions, including a constant level and rate of fixed-rate debt for all maturities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

Equity Price Risk

At March 31, 2011, the Company has two investments in equity securities of publicly traded companies. One of these investments is the Company's investment in Meetic, which is accounted for using the equity method. The other investment is an available-for-sale marketable equity security. The investment in Meetic is included in "Long-term investments" and the available-for-sale marketable equity security is included in "Marketable securities" in the accompanying consolidated balance sheet. The available-for-sale marketable equity security is reported at fair value based on its quoted market price with any unrealized gain or loss, net of tax, included as a component of "Accumulated other comprehensive income" in the accompanying consolidated balance sheet. Investments in equity securities of publicly traded companies are exposed to significant fluctuations in fair value due to the volatility of the stock market, among other factors. During the three months ended March 31, 2011, the Company did not record any other-than-temporary impairment charges related to its available-for-sale marketable equity security. It is not customary for the Company to make significant investments in equity securities as part of its marketable securities investment strategy.

Because our investment in Meetic is accounted for using the equity method, it is not reported at fair value. In the event the fair value of our investment in Meetic were to decline below its carrying value, this decline would be only one factor in an assessment for other-than-temporary impairment.

Foreign Currency Exchange Risk

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

The economic impact of foreign currency exchange rate movements on the Company is often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause the Company to adjust its financing and operating strategies. Foreign exchange gains and losses are not material to the Company's earnings in 2011 and 2010. As foreign currency exchange rates change, translation of the statements of operations of the Company's international businesses into U.S. dollars affects year-over-year comparability of operating results. Historically, the Company has not hedged foreign currency exchange risks because cash flows from international operations are generally reinvested locally. However, the Company periodically reviews its strategy for hedging foreign currency exchange risks. The Company's objective in managing its foreign currency exchange risk is to minimize its potential exposure to the changes that foreign currency exchange rates might have on its earnings, cash flows and financial position.

Item 4. Controls and Procedures

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

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

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

**PART II
OTHER INFORMATION**

Item 1A. Risk Factors

Cautionary Statement Regarding Forward-Looking Information

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

Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, among others the risk factors set forth below. Other unknown or unpredictable factors that could also adversely affect IAC's business, financial condition and results of operations may arise from time to time. In light of these risks and uncertainties, the forward-looking statements discussed in this report may not prove to be accurate. Accordingly, you should not place undue reliance on these forward-looking statements, which only reflect the views of IAC management as of the date of this report. IAC does not undertake to update these forward-looking statements.

Risk Factors

Mr. Diller owns a significant percentage of the voting power of our stock and will be able to exercise significant influence over the composition of our Board of Directors, matters subject to stockholder approval and our operations.

As of April 22, 2011, Mr. Diller owned approximately 4.6 million shares of IAC Class B common stock representing 100% of IAC's outstanding Class B common stock and approximately 35.0% of the total outstanding voting power of IAC. Mr. Diller may acquire up to approximately 1.2 million additional shares of IAC Class B common stock through the exercise of an exchange right, pursuant to which he may exchange with IAC, on a one-for-one basis, from time to time until September 1, 2011, shares of IAC common stock he acquires in the open market or otherwise for shares of IAC Class B common stock currently held in treasury by IAC.

In addition, under an amended and restated governance agreement among IAC and Mr. Diller, for so long as Mr. Diller serves as IAC's Chairman and Senior Executive, he generally has the right to consent to limited matters in the event that IAC's ratio of total debt to EBITDA (as defined in the governance agreement) equals or exceeds four to one over a continuous twelve-month period. While Mr. Diller may not currently exercise this right, no assurances can be given that this right will not become exercisable in the future, and if so, that Mr. Diller will consent to any of the limited matters at such time, in which case IAC would not be able to engage in transactions or take actions covered by this consent right.

As a result of Mr. Diller's ownership interest, voting power and the contractual rights described above, Mr. Diller currently is in a position to influence, subject to our organizational documents and Delaware law, the composition of IAC's Board of Directors and the outcome of corporate actions requiring stockholder approval, such as mergers, business combinations and dispositions of assets, among other corporate transactions. In addition, this concentration of voting power could discourage others from initiating a potential merger, takeover or other change of control transaction that may otherwise be beneficial to IAC, which could adversely affect the market price of IAC securities.

We depend on our key personnel.

Our future success will depend upon our continued ability to identify, hire, develop, motivate and retain highly skilled individuals, with the continued contributions of our senior management being especially critical to our success. Competition for well-qualified employees across IAC and its various businesses is intense and our continued ability to compete effectively depends, in part, upon our ability to attract new employees. While we have established programs to attract new employees and provide incentives to retain existing employees, particularly our senior management, we cannot assure you that we will be able to attract new employees or retain the services of our senior management or any other key employees in the future.

We depend upon arrangements with Google and any adverse change in this relationship could adversely affect our business, financial condition and results of operations.

A substantial portion of our consolidated revenue is attributable to a paid listing supply agreement with Google that expires on March 31, 2016. Pursuant to this agreement, we display and syndicate paid listings provided by Google in response to search queries generated by users of our search services that contain keywords selected and purchased by advertisers through Google. In exchange for making our search traffic available to Google, we receive a share of the revenue generated by the paid listings supplied to us, as well as certain other search-related services.

The amount of revenue we receive from Google depends upon a number of factors outside of our control, including the amount Google charges for advertisements and the efficiency of Google's system in attracting advertisers and serving up paid listings in response to search queries. In addition, Google makes judgments about the relative attractiveness (to the advertiser) of clicks on paid listings from searches performed on our search services and these judgments factor into the amount of revenue we receive. Changes to Google's paid listings network efficiency or its judgment about the relative attractiveness of clicks on paid listings from our search services could have an adverse effect on our business, financial condition and results of operations. Such changes could come about for a number of reasons, including general market conditions, competition or policy and operating decisions made by Google.

Our paid listing supply agreement requires that we comply with certain guidelines promulgated by Google for the use of its brands and services, including the manner in which Google's paid listings are displayed with search results, and that we establish guidelines to govern certain activities of third parties to whom we syndicate paid listings, including the manner in which these parties drive search traffic to their websites and display paid listings. Subject to certain limitations, Google may unilaterally update its policies and guidelines, which could in turn require modifications to (or prohibit certain of) our products, services and/or business practices, which could be costly or otherwise have an adverse effect on our business, financial condition and results of operations. Noncompliance with Google's guidelines by us or third parties to whom we syndicate paid listings could, if not cured, result in Google's suspension of some or all services to our websites or the websites of our third party partners, the imposition of additional restrictions on our ability to syndicate paid listings or the termination of the paid listing supply agreement by Google.

The termination of the paid listing supply agreement by Google, the curtailment of IAC's rights under the agreement (whether pursuant to the terms thereof or otherwise) or the failure of Google to perform its obligations under the agreement would have an adverse effect on our business, financial condition and results of operations. In addition, our inability to obtain a renewal of our agreement with Google with substantially comparable economic and other terms upon the expiration of our current agreement could have an adverse effect on our business, financial condition and results of operations. If any of these events were to occur, we may not be able to find another suitable alternate paid listings provider (or if an alternate were found, the economic and other terms of the agreement and the quality

of paid listings may be inferior relative to our arrangements with, and the paid listings supplied by, Google) or otherwise replace the lost revenues.

General economic events or trends that reduce advertising spending could harm our business, financial condition and results of operations.

A substantial portion of our consolidated revenue is attributable to online advertising. Accordingly, we are particularly sensitive to events and trends that result in decreased advertising expenditures. Advertising expenditures have historically been cyclical in nature, reflecting overall economic conditions and budgeting and buying patterns, as well as levels of consumer confidence and discretionary spending.

Small and local businesses with which we do business are particularly sensitive to these events and trends, given that they are not as well situated to weather adverse economic conditions as their larger competitors, which are generally better capitalized and have greater access to credit. In the recent past, adverse economic conditions have caused, and if such conditions were to recur in the future they could cause, decreases and/or delays in advertising expenditures, which would reduce our revenues and adversely affect our business, financial condition and results of operations.

Our success depends upon the continued growth and acceptance of online advertising, particularly paid listings, as an effective alternative to traditional, offline advertising and the continued commercial use of the internet.

Many advertisers still have limited experience with online advertising and may continue to devote significant portions of their advertising budgets to traditional offline advertising media. Accordingly, we continue to compete with traditional media, including television, radio and print, in addition to a multitude of websites with high levels of traffic and online advertising networks, for a share of available advertising expenditures and expect to face continued competition as more emerging media and traditional offline media companies enter the online advertising market. We believe that the continued growth and continued acceptance of online advertising generally will depend, to a large extent, on its perceived effectiveness and the acceptance of related advertising models (particularly in the case of models that incorporate user targeting), the continued growth in commercial use of the internet (particularly abroad), the extent to which software programs that limit or prevent advertising from being displayed become commonplace and the extent to which the industry is able to effectively manage click fraud. Any lack of growth in the market for online advertising, particularly for paid listings, or any decrease in the effectiveness and value of online advertising (whether due to the passage of laws requiring additional disclosure and/or opt-in policies for advertising that incorporates user targeting or other developments) would have an adverse effect on our business, financial condition and results of operations.

We depend, in part, upon arrangements with third parties to drive traffic to our various websites and convert visitors into users and customers.

We engage in a variety of activities designed to attract traffic to our various websites and convert visitors into repeat users and customers. How successful we are in these efforts depends, in part, upon our continued ability to enter into arrangements with third parties to drive traffic to our various websites, as well as the continued introduction of new and enhanced products and services that resonate with users and customers generally.

For example, we have entered into, and expect to continue to enter into, agreements to distribute our toolbars and search boxes to users through third parties. These agreements are generally not exclusive, are short term in nature and are terminable by either party upon notice. Our inability to enter into new (or renew existing) agreements to distribute our toolbars and search boxes through third

parties for any reason would result in decreases in traffic, queries and advertising revenues, which could have an adverse effect on our business, financial condition and results of operations.

In addition, in the case of the businesses within our Match segment, we have entered into a number of arrangements with third parties to drive traffic to our online personals websites. Pursuant to these arrangements, third parties generally promote our services on their websites and we either pay a fixed fee when visitors to these websites click through to or register on our online personals websites or pay a percentage of revenue we receive from such visitors who pay us subscription fees. These arrangements are generally not exclusive, are short term in nature and are terminable by either party given notice. If existing arrangements with third parties are terminated (or are not renewed upon their expiration) and we fail to replace this traffic and related revenues, or if we are unable to enter into new arrangements with third parties in response to industry trends, our business, financial condition and results of operations could be adversely affected.

In the case of our ServiceMagic business, our ability to drive traffic depends, in part, on the nature and number of service professionals who are members of our network. While these professionals are required to agree that they will operate in accordance with our terms and conditions, we do not enter into long term contracts with them. In addition, a significant number of our service professionals are sole proprietorships and small businesses, which are particularly sensitive to adverse economic conditions, such as constrained liquidity and decreases in consumer spending. As a result, our network of service professionals may experience turnover from time to time, which if significant or recurring over a prolonged period, could result in a decrease in traffic to *ServiceMagic.com* and increased costs, all of which could adversely affect our business, financial condition and results of operations.

Even if we succeed in driving traffic to our properties, we may not be able to convert this traffic or otherwise retain users and customers unless we continue to provide quality products and services. We may not be able to adapt quickly and/or in cost-effective manner to frequent changes in user and customer preferences, which can be difficult to predict, or appropriately time the introduction of enhancements and/or new products or services to the market. Our inability to provide quality products and services would adversely affect user and customer experiences, which would result in decreases in users, customers and revenues, which would adversely affect our business, financial condition and results of operations.

As discussed below, our traffic building and conversion initiatives also involve the expenditure of considerable sums for marketing, as well as for the development and introduction of new products, services and enhancements, infrastructure and other related efforts.

Marketing efforts designed to drive traffic to our various websites may not be successful or cost-effective.

Traffic building and conversion initiatives involve considerable expenditures for online and offline advertising and marketing. We have made, and expect to continue to make, significant expenditures for search engine marketing (primarily in the form of the purchase of keywords), online display advertising and traditional offline advertising in connection with these initiatives, which may not be successful or cost-effective. In the case of our search engine marketing efforts, our failure to respond successfully to rapid and frequent changes in the pricing and operating dynamics of search engines could adversely affect the placement of paid listings that appear in response to keywords we purchase, as well as adversely affect the pricing of online advertising we purchase generally, which would increase our costs. In the case of paid advertising generally, the policies of sellers and publishers of advertising may limit our ability to purchase certain types of advertising or advertise some of our products and services, which could affect our ability to compete effectively and, in turn, adversely affect our business, financial condition and results of operations.

One of the most cost-effective efforts we employ to attract and acquire new, and retain existing, users and customers is commonly referred to as search engine optimization, or SEO. SEO involves

developing websites to rank well within search engine results. Search engines frequently update and change the logic that determines the placement and display of results of user searches. The failure to successfully manage SEO efforts across our businesses, including the timely modification of SEO efforts from time to time in response to periodic changes in search engine algorithms, search query trends and related actions by providers of search services designed to ensure the display of unique offerings in search results (which actions by search service providers may result in algorithmic listings being displayed less prominently within search engine results), could result in a substantial decrease in traffic to our various websites, which would result in substantial decreases in conversion rates and repeat business, as well as increased costs if we were to replace free traffic with paid traffic, any or all of which would adversely affect our business, financial condition and results of operations.

In addition, search engines have increasingly expanded their offerings into other, non-search related categories, and have in certain instances displayed their own integrated or related product and service offerings in a more prominent manner than those of third parties within their search engine results. Continued expansion and competition from search engines could result in a substantial decrease in traffic to our various websites, which would result in substantial decreases in conversion rates and repeat business, as well as increased costs if we were to replace free traffic with paid traffic, any or all of which would adversely affect our business, financial condition and results of operations.

Lastly, as discussed above, we also enter into various arrangements with third parties in an effort to increase traffic, which arrangements are generally more cost-effective than traditional marketing efforts. If we are unable to renew existing (and enter into new) arrangements of this nature, sales and marketing costs as a percentage of revenue would increase over the long-term.

Any failure to attract and acquire new, and retain existing, traffic, users and customers in a cost-effective manner could adversely affect our business, financial condition and results of operations.

We may not be able to adapt quickly enough to changing industry standards.

The e-commerce industry is characterized by evolving industry standards, coupled with frequent and related new product and service introductions and enhancements. The development of new product and service introductions and enhancements in response to evolving industry standards requires significant time and resources and we may not be able to adapt quickly enough (and/or in a cost-effective manner) to these changes or appropriately time the introduction of new products, services and enhancements to the market and our failure to do so could adversely affect our business, financial condition and results of operations.

The continued widespread adoption of new internet and telecommunications technologies and devices or other technological changes could require us to modify or adapt our services or infrastructures and our failure to do so could render our existing websites, services and proprietary technologies obsolete, which could adversely affect our business, financial condition and results of operations. For example, user and usage volumes on mobile devices continue to increase relative to those of personal computers. The lower resolution, functionality, display limitations and memory associated with mobile devices could make the use of our various services through these devices difficult. While we have developed mobile versions of certain of our services, we have limited experience with these applications and they may not be compelling to users. Furthermore, existing agreements across our business may need to be amended to cover the provision of our services on mobile devices, which the counterparties may be unwilling to do.

Furthermore, in the case of certain of our search services, third parties have introduced (and continue to introduce) new technologies, applications and policies that may interfere with the ability of our users to access or utilize some of our services generally or otherwise make users less likely to use our services (such as through the introduction and features and/or processes that make the access and use of our services cumbersome relative to those of our competitors). For example, third parties have

introduced technologies and applications that prevent users from downloading toolbars generally and/or have features and policies that significantly lessen the likelihood that users will download our toolbars and that previously downloaded toolbars will remain in active use, such as features that interfere with the functionality of search boxes embedded within our toolbars and the maintenance of home page and other settings previously selected by users. Third parties have also introduced technologies and applications that are either not compatible with (or otherwise interfere with) the "search assistant" function embedded within our toolbars, pursuant to which our toolbars generate search results for users that receive "DNS," "404" and other errors in response to search queries entered into search boxes embedded within our toolbars or the address bar of their web browsers. These technologies and applications adversely impact our ability to generate search queries through our toolbars, which in turn adversely impacts our revenues. Our failure to successfully modify our toolbars in a cost-effective manner in response to the introduction and adoption of these new technologies and applications could adversely affect our business, financial condition and results of operations.

Our estimated income taxes could be materially different from income taxes that we ultimately pay.

We are subject to income taxes in both the United States and numerous jurisdictions abroad. Significant judgment and estimation is required in determining our provision for income taxes and related matters. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determinations are uncertain or otherwise subject to interpretation. Our determination of our income tax liability is always subject to review by applicable tax authorities and we are currently subject to audits in a number of jurisdictions. Although we believe our income tax estimates and related determinations are reasonable and appropriate, relevant taxing authorities may disagree. The ultimate outcome of any such audits and reviews could be materially different from estimates and determinations reflected in our historical income tax provisions and accruals. Any adverse outcome of any such audit or review could have an adverse effect on our financial condition and results of operations.

We may experience operational and financial risks in connection with acquisitions. In addition, some of the businesses we acquire may incur significant losses from operations or experience impairment of carrying value.

We have made numerous acquisitions in the past and our future growth may depend, in part, on acquisitions. We may experience operational and financial risks in connection with acquisitions. To the extent that we continue to grow through acquisitions, we will need to:

successfully integrate the operations, as well as the accounting, financial controls, management information, technology, human resources and other administrative systems, of acquired businesses with our existing operations and systems;

retain or hire senior management and other key personnel at acquired businesses; and

successfully manage acquisition-related strain on the management, operations and financial resources of IAC and/or acquired businesses.

We may not be successful in addressing these challenges or any other problems encountered in connection with historical and future acquisitions. In addition, the anticipated benefits of one or more acquisitions may not be realized and future acquisitions could result in potentially dilutive issuances of equity securities and the assumption of contingent liabilities. Also, the value of goodwill and other intangible assets acquired could be impacted by one or more continuing unfavorable events and/or trends, which could result in significant impairment charges. The occurrence of any these events could have an adverse effect on our business, financial condition and results of operations.

We operate in certain international markets in which we have limited experience, and as a result, face additional risks. We may not be able to successfully expand into new, or further into existing, international markets.

We currently operate in a limited number of jurisdictions abroad and may continue to expand our international presence. In order for our products and services in these jurisdictions to achieve widespread acceptance, commercial use and acceptance of the internet must continue to grow, which growth may occur at slower rates than those experienced in the U.S. Moreover, we must continue to successfully tailor our services to the unique customs and cultures of these jurisdictions, which can be difficult and costly and the failure to do so could slow our international growth.

Operating abroad, where we have limited experience, exposes us to additional risks. For example, we may experience difficulties in managing operations due to distance, language and cultural differences, including issues associated with the establishment of management systems and infrastructures, the staffing of foreign operations, exchange rate fluctuations and online privacy and protection of personal information. Our success in international markets will also depend, in part, on our ability to identify potential acquisition candidates, joint venture or other partners, and to enter into arrangements with these parties on favorable terms, given that we could encounter significant barriers to entry in connection with expansion efforts outside of these arrangements.

A variety of new laws, or new interpretations of existing laws, could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in the U.S. and abroad that are costly to comply with, can result in negative publicity and diversion of management time and effort and can subject us to claims or other remedies. Some of these laws, such as income, sales, use, value-added and other tax laws and consumer protection laws, are applicable to businesses generally and others are unique to the type of businesses in which we are engaged. Many of these laws were adopted prior to the advent of the internet and related technologies and, as a result, do not contemplate or address the unique issues of the internet and related technologies. Laws that do reference the internet are being interpreted by the courts, but their applicability and scope remain uncertain. For example, laws relating to the liability of providers of online services are currently unsettled both within the U.S. and abroad. Claims could be threatened and filed under both U.S. and foreign law for defamation, libel, slander, invasion of privacy and other tort claims, unlawful activity, copyright and trademark infringement, or other theories based on the nature and content of the materials searched and the ads posted by our products and services, or content generated by us and our users.

In addition, the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for listing or linking to third party websites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. Those of our businesses that mention or otherwise incorporate copyrighted material into the content they produce also rely on fair use principles, which allow limited use of copyrighted materials without having to obtain the consent of the copyright holder, provided we satisfy certain legal criteria. Also, the Children's Online Privacy Protection Act restricts the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. In the area of data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as California's Information Practices Act. We face similar risks and costs as our products, services and content are offered in international markets and may be subject to additional regulations.

Any failure on our part to comply with applicable laws may subject us to additional liabilities, which could adversely affect our business, financial condition and results of operations. In addition, if the laws to which we are currently subject are amended or interpreted adversely to our interests, or if

new adverse laws are adopted, our products and services might need to be modified to comply with such laws, which would increase our costs and could result in decreased demand for our products and services to the extent that we pass on such costs to consumers. Specifically, in the case of tax laws, positions that we have taken or will take are subject to interpretation by the relevant taxing authorities and while we believe that the positions we have taken to date comply with applicable law, there can be no assurances that the relevant taxing authorities will not take a contrary position, and if so, that such positions will not adversely affect us. Any events of this nature could adversely affect our business, financial condition and results of operations.

The processing, storage, use and disclosure of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights.

We receive, transmit and store a large volume of personally identifiable information and other user data in connection with the processing of search queries, the provision of online services, transactions with users and customers and advertising on our websites. The sharing, use, disclosure and protection of this information are governed by the respective privacy and data security policies maintained by our various businesses. Moreover, there are federal, state and international laws regarding privacy and the storing, sharing, use, disclosure and protection of personally identifiable information and user data. Specifically, personally identifiable information is increasingly subject to legislation and regulations in numerous jurisdictions around the world, the intent of which is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction.

There are currently pending several bills in the U.S. Congress, which if passed could result in more onerous requirements regarding the manner in which certain personally identifiable information and other user data will need to be stored and managed. Additionally, the U.S. Federal Trade Commission released a staff report in December 2010 in which it proposed a new framework for addressing commercial use of consumer data. We could be adversely affected if legislation or regulations are expanded to require changes in the practices and/or privacy policies of our various businesses, which could be costly to implement, or if governing jurisdictions interpret or implement their legislation or regulations in ways that otherwise negatively affect our business, financial condition and results of operations.

As privacy and data protection have become more sensitive issues, we may also become exposed to potential liabilities as a result of differing views on the privacy of consumer and other user data collected by our businesses. Also, we cannot guarantee that our security measures will prevent security breaches. The failure of any of our businesses, or their various third party vendors and service providers, to comply with applicable privacy policies or federal, state or similar international laws and regulations or any compromise of security that results in the unauthorized release of personally identifiable information or other user data could adversely affect our business, financial condition and results of operations.

We may fail to adequately protect our intellectual property rights or may be accused of infringing intellectual property rights of third parties.

We regard our intellectual property rights, including trademarks, domain names, trade secrets, patents, copyrights and other similar intellectual property, as critical to our success. For example, the businesses within our principal reporting segments, our Search, Match and ServiceMagic reporting segments, rely heavily upon their trademarks (primarily *Ask.com*, our various toolbar brands, *Match.com* and *ServiceMagic.com* and related domain names and logos), through which they market their products and services and seek to build and maintain brand loyalty and recognition. So long as these businesses continue to use these trademarks to identify their products and services and renew related trademarks upon their expiration, they will continue to have related trademark protections indefinitely under current trademark laws, rules and regulations.

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The businesses within our Search segment also rely heavily upon trade secrets, primarily search algorithms through which organic search results are generated. To a lesser extent, these businesses also rely upon patented and patent-pending proprietary technologies and processes, primarily those relating to search-related products and services, with expiration dates for patented technologies ranging from 2017 to 2027, and copyrighted material, primarily emoticons, characters and other content that is incorporated into, and used in connection with the marketing of, toolbars generally.

Our Match segment also relies upon patent-pending proprietary technologies relating to matching process systems and related features, products and services. Our ServiceMagic segment also relies heavily upon trade secrets, primarily the matching algorithm through which members of its network of local service professionals are matched with consumers, as well as related patented proprietary technologies that expire in 2020.

We rely on a combination of laws and contractual restrictions with employees, customers, suppliers, affiliates and others to establish and protect our various intellectual property rights. For example, we have generally registered and continue to apply to register and renew, or secure by contract where appropriate, trademarks and service marks as they are developed and used, and reserve, register and renew domain names as we deem appropriate. Effective trademark protection may not be available or may not be sought in every country in which products and services are made available and contractual disputes may affect the use of marks governed by private contract. Similarly, not every variation of a domain name may be available or be registered, even if available.

We also generally seek to apply for patents or for other similar statutory protections as and if we deem appropriate, based on then current facts and circumstances, and will continue to do so in the future. No assurances can be given that any patent application we have filed will result in a patent being issued, or that any existing or future patents will afford adequate protection against competitors and similar technologies. In addition, no assurances can be given that third parties will not create new products or methods that achieve similar results without infringing upon patents we own.

Despite these precautions, our intellectual property rights may still not be protected in a meaningful manner, challenges to contractual rights could arise or third parties could copy or otherwise obtain and use our intellectual property without authorization. The occurrence of any of these events could result in the erosion of our brand names and limitations on our ability to control marketing on or through the internet using our various domain names, as well as impede our ability to effectively compete against competitors with similar technologies, any of which could adversely affect our business, financial conditions and results of operations.

From time to time, we have been subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights, patents and other intellectual property rights held by third parties. In addition, litigation may be necessary in the future to enforce our intellectual property rights, protect our trade secrets or to determine the validity and scope of proprietary rights claimed by others. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect our business, financial condition and results of operations. Patent litigation tends to be particularly protracted and expensive.

Our success depends, in part, on the integrity of our systems and infrastructure and those of third parties. System interruption and the lack of integration and redundancy in our and third party information systems may affect our businesses.

To succeed, our systems and infrastructure must perform well on a consistent basis. From time to time, we may experience occasional system interruptions that make some or all of our systems or data unavailable or that prevent us from providing services, which could adversely affect our business. Moreover, as traffic to our various websites increases and the number of new (and presumably more

complex) products and services that we introduce continues to grow, we will need to upgrade our systems, infrastructure and technologies generally to facilitate this growth. If we do not do so or if we experience inefficiencies and/or operational failures in connection with these efforts, users, customers and third parties with whom we do business may not be able to access our services on an intermittent or prolonged basis and the quality of their experiences could be adversely affected. Moreover, even if we do not encounter any inefficiencies and/or operational failures in connection with these efforts, third parties with whom we do business may not make the changes to their systems, infrastructure and technology needed in order to access our services on a timely basis, if at all. The occurrence of any of these events could adversely affect our business, financial condition and results of operations.

We also rely on third party computer systems, data centers, broadband and other communications systems and service providers in connection with the provision of services generally, as well as to facilitate and process certain transactions with customers. Any interruptions, outages or delays in our systems or those of our third party providers, or deterioration in the performance of these systems, could impair our ability to provide services and/or process certain transactions with customers. Furthermore, data security breaches (as a result of the actions of hackers or otherwise), fire, power loss, telecommunications failure, natural disasters, acts of war or terrorism, acts of God and other similar events or disruptions may damage or interrupt computer, data, broadband or other communications systems at any time. Any event of this nature could cause system interruption, delays and loss of critical data, and could prevent us from providing services to users and customers. While we have backup systems for certain aspects of our operations, our systems are not fully redundant and disaster recovery planning is not sufficient for all eventualities. In addition, we may not have adequate insurance coverage to compensate for losses from a major interruption.

In particular, our destination search websites may be adversely affected by fraudulent, surreptitious or other unwanted computer programs, applications and activity that make changes to users' computers and interfere with the overall experience of our services, such as by hijacking queries to these websites or altering or replacing search results generated. This type of interference often occurs without disclosure to or consent from users, resulting in a negative experience that users may associate with us. These disruptive programs and applications may be difficult or impossible to uninstall or disable, may reinstall themselves and may circumvent efforts to block or remove them. In addition, downloadable toolbars through which we provide search services are also subject to attack by viruses, worms and other malicious software programs, which could jeopardize the security of information stored in users' computer or in our systems and networks. No assurances can be given that our efforts to combat these malicious applications will be successful and/or that our products and services will not have (or will not be perceived to have) vulnerabilities in this regard.

If any of these events were to occur, it could damage our reputation and result in the loss of current and potential users and customers, which could have an adverse effect on our business, financial condition and results of operations and otherwise be costly to remedy.

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

Issuer Purchases of Equity Securities

The Company did not purchase any shares of its common stock during the quarter ended March 31, 2011. However, in connection with the tax-free exchange with Liberty in the fourth quarter of 2010, the Company received 0.1 million shares of IAC common stock in February 2011 in fulfillment of post-closing working capital adjustments. As of April 22, 2011, approximately 7.2 million shares of common stock remained available for repurchase under the Company's previously announced February 2010 repurchase authorization. The Company may purchase shares pursuant to this repurchase authorization over an indefinite period of time, depending on those factors Company management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

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Item 6. Exhibits

| Exhibit Number | Description | Location |
|----------------|---|---|
| 3.1 | Restated Certificate of Incorporation of IAC/InterActiveCorp. | Exhibit 3.1 to the Registrant's Registration Statement on Form 8-A/A, filed on August 12, 2005. |
| 3.2 | Certificate of Amendment of the Restated Certificate of Incorporation of IAC/InterActiveCorp. | Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 22, 2008. |
| 3.3 | Amended and Restated By-Laws of IAC/InterActiveCorp. | Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on December 6, 2010. |
| 10.1 | 2011 IAC/InterActiveCorp Deferred Compensation Plan for Non-Employee Directors.(1) | |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a- 14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.(1) | |
| 31.2 | Certification of the Chairman and Senior Executive pursuant to Rule 13a- 14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.(1) | |
| 31.3 | Certification of the Executive Vice President and Chief Financial Officer pursuant to Rule 13a- 14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.(1) | |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.(2) | |
| 32.2 | Certification of the Chairman and Senior Executive pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.(2) | |
| 32.3 | Certification of the Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.(2) | |
| 101.INS | XBRL Instance(3) | |
| 101.SCH | XBRL Taxonomy Extension Schema(3) | |
| 101.CAL | XBRL Taxonomy Extension Calculation(3) | |

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| Exhibit Number | Description | Location |
|---------------------------|---|-----------------|
| 101.DEF | XBRL Taxonomy Extension Definition(3) | |
| 101.LAB | XBRL Taxonomy Extension Labels(3) | |
| 101.PRE | XBRL Taxonomy Extension Presentation(3) | |

(1) Filed herewith.

(2) Furnished herewith.

(3) Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions or other liability provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. In addition, users of this data are advised that, pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

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