IAC/INTERACTIVECORP
Form 10-Q
August 02, 2012

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As filed with the Securities and Exchange Commission on August 2, 2012

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 June 30, 2012

Or

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

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

IAC/INTERACTIVECORP

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant 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 ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 20, 2012, the following shares of the registrant's common stock were outstanding:

Common Stock	81,770,377
Class B Common Stock	5,789,499
Total outstanding Common Stock	87,559,876

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of July 20, 2012 was $3,937,627,516. 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

CONSOLIDATED BALANCE SHEET

(Unaudited)

	June 30, 2012	December 31, 2011
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 807,196	$ 704,153
Marketable securities	138,597	165,695
Accounts receivable, net of allowance of $6,775 and $7,309, respectively	205,156	177,030
Other current assets	128,272	112,255
Total current assets	1,279,221	1,159,133
Property and equipment, net	255,926	259,588
Goodwill	1,345,873	1,358,524
Intangible assets, net	367,207	378,107
Long-term investments	191,607	173,752
Other non-current assets	106,514	80,761
TOTAL ASSETS	$ 3,546,348	$ 3,409,865
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Current maturities of long-term debt	$ 15,844	$
Accounts payable, trade	71,592	64,398
Deferred revenue	159,681	126,297
Accrued expenses and other current liabilities	362,426	343,490
Total current liabilities	609,543	534,185
Long-term debt, net of current maturities	80,000	95,844
Income taxes payable	478,287	450,533
Deferred income taxes	301,616	302,213
Other long-term liabilities	28,125	16,601
Redeemable noncontrolling interests	56,337	50,349
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Common stock $.001 par value; authorized 1,600,000,000 shares; issued 247,816,217 and 234,100,950 shares, respectively, and outstanding 83,010,992 and 77,126,881 shares, respectively	248	234
Class B convertible common stock $.001 par value; authorized 400,000,000 shares; issued 16,157,499 shares and outstanding 5,789,499 shares	16	16
Additional paid-in capital	11,605,486	11,280,173
Accumulated deficit	(399,975)	(477,785)
Accumulated other comprehensive loss	(15,560)	(12,443)
Treasury stock 175,173,225 and 167,342,069 shares, respectively	(9,247,299)	(8,885,146)
Total IAC shareholders' equity	1,942,916	1,905,049
Noncontrolling interests	49,524	55,091
Total shareholders' equity	1,992,440	1,960,140

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	3,546,348	$	3,409,865

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

IAC/INTERACTIVECORP

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In thousands, except per share data)			
Revenue	$ 680,612	$ 485,404	$ 1,321,212	$ 945,617
Costs and expenses:				
Cost of revenue (exclusive of depreciation shown separately below)	236,690	181,472	460,261	354,190
Selling and marketing expense	213,070	133,218	432,908	273,468
General and administrative expense	92,231	80,553	184,019	156,844
Product development expense	23,115	17,280	46,597	35,002
Depreciation	12,225	12,450	24,340	25,889
Amortization of intangibles	5,805	2,200	12,846	4,657
Total costs and expenses	583,136	427,173	1,160,971	850,050
Operating income	97,476	58,231	160,241	95,567
Equity in losses of unconsolidated affiliates	(19,009)	(8,720)	(24,910)	(10,599)
Other (expense) income, net	(1,732)	5,637	(323)	6,389
Earnings from continuing operations before income taxes	76,735	55,148	135,008	91,357
Income tax provision	(28,634)	(9,518)	(55,754)	(25,559)
Earnings from continuing operations	48,101	45,630	79,254	65,798
Loss from discontinued operations, net of tax	(4,641)	(2,488)	(957)	(4,436)
Net earnings	43,460	43,142	78,297	61,362
Net earnings attributable to noncontrolling interests	(128)	(718)	(487)	(868)
Net earnings attributable to IAC shareholders	$ 43,332	$ 42,424	$ 77,810	$ 60,494
Per share information attributable to IAC shareholders:				
Basic earnings per share from continuing operations	$ 0.56	$ 0.50	$ 0.93	$ 0.72
Diluted earnings per share from continuing operations	$ 0.52	$ 0.46	$ 0.86	$ 0.68
Basic earnings per share	$ 0.50	$ 0.47	$ 0.92	$ 0.68
Diluted earnings per share	$ 0.47	$ 0.44	$ 0.85	$ 0.63
Dividends declared per share	$ 0.12	$	$ 0.24	$
Non-cash compensation expense by function:				
Cost of revenue	$ 1,501	$ 1,151	$ 3,225	$ 2,233
Selling and marketing expense	1,004	1,200	2,126	2,235
General and administrative expense	16,411	18,926	33,528	35,326
Product development expense	1,525	1,730	3,028	3,374
Total non-cash compensation expense	$ 20,441	$ 23,007	$ 41,907	$ 43,168

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

IAC/INTERACTIVECORP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In thousands)			
Net earnings	$ 43,460	$ 43,142	$ 78,297	$ 61,362
Other comprehensive (loss) income, net of tax:				
Change in foreign currency translation adjustment	(26,634)	8,982	(19,549)	9,988
Change in net unrealized (losses) gains on available-for-sale securities	(11,281)	32,447	13,443	34,816
Total other comprehensive (loss) income	(37,915)	41,429	(6,106)	44,804
Comprehensive income	5,545	84,571	72,191	106,166
Comprehensive loss (income) attributable to noncontrolling interests	3,774	(766)	2,502	(994)
Comprehensive income attributable to IAC shareholders	$ 9,319	$ 83,805	$ 74,693	$ 105,172

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

IAC/INTERACTIVECORP

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

		IAC Shareholders' Equity										
	Redeemable Noncontrolling Interests	Common Stock $.001 Par Value $	Common Stock $.001 Par Value Shares	Class B Convertible Common Stock $.001 Par Value $	Class B Convertible Common Stock $.001 Par Value Shares	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total IAC Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
							(In thousands)					
Balance as of December 31, 2011	$ 50,349	$ 234	234,101	$ 16	16,157	$ 11,280,173	$ (477,785)	$ (12,443)	$ (8,885,146)	$ 1,905,049	$ 55,091	$ 1,960,140
Net (loss) earnings for the six months ended June 30, 2012	(827)						77,810			77,810	1,314	79,124
Other comprehensive loss, net of tax	(1,441)							(3,117)		(3,117)	(1,548)	(4,665)
Non-cash compensation expense						40,444				40,444	1,463	41,907
Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes		2	1,987			17,504				17,506		17,506
Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other						9,764				9,764		9,764
Issuance of common stock upon the exercise of warrants		12	11,728			284,099				284,111		284,111
Dividends						(22,798)				(22,798)		(22,798)
Purchase of treasury stock									(362,153)	(362,153)		(362,153)
Purchase of redeemable noncontrolling interests	(2,955)											
Fair value of redeemable noncontrolling interests adjustment	3,700					(3,700)				(3,700)		(3,700)
Transfer from noncontrolling interests to redeemable noncontrolling interests	6,796										(6,796)	(6,796)
Other	715											
Balance as of June 30, 2012	$ 56,337	$ 248	247,816	$ 16	16,157	$ 11,605,486	$ (399,975)	$ (15,560)	$ (9,247,299)	$ 1,942,916	$ 49,524	$ 1,992,440

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

IAC/INTERACTIVECORP

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings	$ 78,297	$ 61,362
Less: Discontinued operations, net of tax	(957)	(4,436)
Earnings from continuing operations	79,254	65,798
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Non-cash compensation expense	41,907	43,168
Depreciation	24,340	25,889
Amortization of intangibles	12,846	4,657
Deferred income taxes	819	14,136
Equity in losses of unconsolidated affiliates	24,910	10,599
Gain on sales of investments	(1,659)	(1,544)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(19,382)	(10,210)
Other current assets	(7,937)	(237)
Accounts payable and other current liabilities	3,013	(6,343)
Income taxes payable	30,440	(8,146)
Deferred revenue	8,679	11,878
Other, net	8,297	7,515
Net cash provided by operating activities attributable to continuing operations	205,527	157,160
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(20,411)	(79,968)
Capital expenditures	(20,353)	(19,349)
Proceeds from maturities and sales of marketable debt securities	39,000	402,096
Purchases of marketable debt securities	(24,254)	(135,021)
Proceeds from sales of long-term investments	12,527	11,808
Purchases of long-term investments	(6,244)	(1,604)
Funds transferred to escrow for Meetic tender offer		(360,585)
Other, net	(12,603)	(7,127)
Net cash used in investing activities attributable to continuing operations	(32,338)	(189,750)
Cash flows from financing activities attributable to continuing operations:		
Purchase of treasury stock	(359,231)	(155,241)
Issuance of common stock, net of withholding taxes	301,677	52,043
Dividends	(21,697)	
Excess tax benefits from stock-based awards	14,353	17,865
Other, net	(2,842)	20
Net cash used in financing activities attributable to continuing operations	(67,740)	(85,313)
Total cash provided by (used in) continuing operations	105,449	(117,903)
Total cash used in discontinued operations	(729)	(2,913)
Effect of exchange rate changes on cash and cash equivalents	(1,677)	1,583

Net increase (decrease) in cash and cash equivalents	103,043	(119,233)
Cash and cash equivalents at beginning of period	704,153	742,099
Cash and cash equivalents at end of period	$ 807,196	$ 622,866

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

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

IAC is a leading media and internet company comprised of more than 150 brands and products, including Match.com, Ask.com, CollegeHumor.com, and CityGrid Media. Focused in the areas of search, personals, local and media, IAC's family of websites is one of largest in the world, with nearly a billion monthly visits across more than 30 countries.

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. 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. 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, 2011.

Accounting Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates, judgments and assumptions that impact the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. Actual results could differ from those 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; the recoverability of goodwill and indefinite-lived intangible assets; the useful lives and recovery of definite-lived intangible assets and property and equipment; the carrying value of accounts receivable, including the determination of the allowance for doubtful accounts and revenue reserves; the reserves for income tax contingencies; the valuation allowance for deferred income tax assets; and the fair value of and forfeiture rates for 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.

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

Certain Risks and Concentrations

A substantial portion of the Company's revenue is derived from online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or changes in advertising spending behavior or in customer buying behavior could adversely affect our operating results. Most of the Company's online advertising revenue is attributable to a paid listing supply agreement with Google Inc. ("Google"), which expires on March 31, 2016. For the three and six months ended June 30, 2012, revenue earned from Google was $335.8 million and $664.7 million, respectively. For the three and six months ended June 30, 2011, revenue earned from Google was $221.3 million and $436.2 million, respectively. This revenue was earned by the businesses comprising the Search & Applications segment. Accounts receivable related to revenue earned from Google totaled $117.9 million at June 30, 2012 and $105.7 million at December 31, 2011.

NOTE 2 INCOME TAXES

At the end of each interim period, the Company makes its best estimate of the annual expected effective income 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 effects 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, judgment on the realizability of a beginning-of-the-year deferred tax asset in future years or income tax contingencies is recognized in the interim period in which the change occurs.

The computation of the annual expected effective income 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 income tax rate changes during a quarter, the effect of the change on prior quarters is included in income tax provision in the quarter in which the change occurs. Included in the income tax provision for the three months ended June 30, 2012 is a benefit of $0.4 million due to lower estimated annual effective tax rate from that applied to the first quarter's ordinary income from continuing operations.

For the three and six months ended June 30, 2012, the Company recorded an income tax provision for continuing operations of $28.6 million and $55.8 million, respectively, which represents effective income tax rates of 37% and 41%, respectively. The effective rate for the three months ended June 30, 2012 is higher than the statutory rate of 35% due primarily to a valuation allowance on the deferred tax asset created by The Newsweek/Daily Beast Company ("Newsweek Daily Beast") non-cash re-measurement charge related to our acquisition of a controlling interest, and state taxes, partially offset by foreign income taxed at lower rates and a net decrease in the valuation allowance on beginning of the year deferred tax assets related to investments in unconsolidated affiliates. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 INCOME TAXES (Continued)

effective rate for the six months ended June 30, 2012 is higher than the statutory rate of 35% due primarily to an increase in reserves for and interest on reserves for income tax contingencies, a valuation allowance on the deferred tax asset created by the Newsweek Daily Beast non-cash re-measurement charge, and state taxes, partially offset by foreign income taxed at lower rates and a net decrease in the valuation allowance on beginning of the year deferred tax assets related to investments in unconsolidated affiliates. For the three and six months ended June 30, 2011, the Company recorded an income tax provision for continuing operations of $9.5 million and $25.6 million, respectively, which represents effective income tax rates of 17% and 28%, respectively. The effective rates for the three and six months ended June 30, 2011 are lower than the federal statutory rate of 35% due principally to the reduction in state tax accruals resulting from income tax provision to tax return reconciliations and the expiration of statutes of limitations and foreign income taxed at lower rates, partially offset by interest on tax contingencies and state taxes.

At June 30, 2012 and December 31, 2011, unrecognized tax benefits, including interest, were $479.8 million and $462.8 million, respectively. Unrecognized tax benefits, including interest, at June 30, 2012 increased $17.0 million from December 31, 2011 due principally to a net increase in deductible timing differences. Of the total unrecognized tax benefits at June 30, 2012, $467.1 million is included in "Income taxes payable," $12.5 million relates to deferred tax assets included in "Deferred income taxes" and $0.2 million is included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheet. Included in unrecognized tax benefits at June 30, 2012 is $98.1 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 June 30, 2012 are subsequently recognized, $96.6 million and $214.9 million, net of related deferred tax assets and interest, would reduce income tax expense for continuing operations and discontinued operations, respectively. In addition, a continuing operations income tax provision of $9.0 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 June 30, 2012 is a $0.2 million benefit and a $1.7 million expense, respectively, net of a related deferred tax expense of $0.2 million and a deferred tax benefit of $1.0 million, respectively, for interest on unrecognized tax benefits. Included in income tax provision for continuing operations and discontinued operations for the six months ended June 30, 2012 is a $1.7 million expense and a $3.4 million benefit, respectively, net of related deferred tax benefit of $1.0 million and a deferred tax expense of $2.1 million, respectively, for interest on unrecognized tax benefits. At June 30, 2012 and December 31, 2011, the Company has accrued $110.2 million and $111.2 million, respectively, for the payment of interest. At June 30, 2012 and December 31, 2011, the Company has accrued $2.8 million and $2.5 million, respectively, 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 substantially completed its audit of the Company's tax returns for the years ended December 31, 2001 through 2006. The settlement of these tax years has not yet been submitted to the

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 INCOME TAXES (Continued)

Joint Committee of Taxation for approval. The IRS began its audit of the Company's tax returns for the years ended December 31, 2007 through 2009 in July 2011. The statute of limitations for the years 2001 through 2008 has been extended to December 31, 2013. Various state and local jurisdictions are currently under examination, the most significant of which are California, New York and New York City for various tax years beginning with 2005. 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 $64.1 million within twelve months of the current reporting date, of which approximately $13.4 million could decrease income tax provision, primarily due to settlements, expirations of statutes of limitations, 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 3 BUSINESS COMBINATION

In 2009, Match acquired a 27% ownership interest in Meetic S.A. ("Meetic"). Match accounted for this interest under the equity method of accounting through August 31, 2011. During the third quarter of 2011, Match acquired an additional 12.5 million shares of Meetic for $272.0 million in cash pursuant to a tender offer. These additional shares increased Match's voting interest and ownership interest in Meetic to 79% and 81%, respectively, resulting in Match obtaining a controlling financial interest in Meetic. Accordingly, this purchase was accounted for under the acquisition method of accounting and the financial results of Meetic are included within IAC's consolidated financial statements and the Match operating segment beginning September 1, 2011.

The unaudited pro forma financial information in the table below summarizes the combined results of IAC and Meetic as if the acquisition of Meetic had occurred as of January 1, 2011. The pro forma financial information includes adjustments required under the acquisition method of accounting and is presented for informational purposes only and is not necessarily indicative of what the results would have been had the acquisition occurred as of January 1, 2011. For the three and six months ended June 30, 2011, pro forma adjustments reflected below include a $7.6 million and $35.5 million reduction in revenue, respectively, relating to a write-off of Meetic's deferred revenue upon acquisition, and $7.3 million and $14.7 million, respectively, in amortization of Meetic's intangible assets.

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
	(In thousands, except per share data)	
Revenue	$ 546,526	$ 1,042,183
Net earnings attributable to IAC shareholders	$ 47,765	$ 37,918
Basic earnings per share attributable to IAC shareholders	$ 0.53	$ 0.42
Diluted earnings per share attributable to IAC shareholders	$ 0.49	$ 0.40

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 4 MARKETABLE SECURITIES

At June 30, 2012, current available-for-sale marketable securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
Corporate debt securities	$ 26,420	$ 56	$	$ 26,476
States of the U.S. and state political subdivisions	111,541	598	(18)	112,121
Total debt securities	137,961	654	(18)	138,597
Total marketable securities	$ 137,961	$ 654	$ (18)	$ 138,597

At December 31, 2011, current available-for-sale marketable securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
Corporate debt securities	$ 48,621	$ 99	$ (15)	$ 48,705
States of the U.S. and state political subdivisions	111,758	587	(22)	112,323
Total debt securities	160,379	686	(37)	161,028
Equity security	4,656	11		4,667
Total marketable securities	$ 165,035	$ 697	$ (37)	$ 165,695

The net unrealized gains in the tables above are included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet.

The contractual maturities of debt securities classified as available-for-sale at June 30, 2012 are as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 65,966	$ 66,125
Due after one year through five years	71,995	72,472
Total	$ 137,961	$ 138,597

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 4 MARKETABLE SECURITIES (Continued)

The following table summarizes investments in marketable debt securities (6 in total at June 30, 2012) that have been in a continuous unrealized loss position for less than twelve months:

	June 30, 2012		December 31, 2011	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)			
Corporate debt securities	$	$	$ 12,920	$ (15)
States of the U.S. and state political subdivisions	11,281	(18)	11,711	(22)
Total	$ 11,281	$ (18)	$ 24,631	$ (37)

At June 30, 2012 and December 31, 2011, 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 marketable debt securities are rated investment grade. The gross unrealized losses on the marketable debt securities relate to changes in interest rates. Because the Company does not intend to sell any marketable debt securities, and it is not more likely than not that the Company will be required to sell any marketable debt securities, before recovery of their amortized cost bases, which may be maturity, the Company does not consider any of its marketable debt securities to be other-than-temporarily impaired at June 30, 2012.

The following table presents the proceeds from maturities and sales of current and non-current available-for-sale marketable securities and the related gross realized gains and losses:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Proceeds from maturities and sales of available-for-sale marketable securities	$ 21,376	$ 215,139	$ 47,777	$ 413,904
Gross realized gains	15	1,022	1,798	1,916
Gross realized losses				(18)

Gross realized gains and losses from the maturities and sales of available-for-sale marketable securities are included in "Other (expense) income, net" in the accompanying consolidated statement of operations.

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. Unrealized gains, net of tax, reclassified out of accumulated other comprehensive income (loss) into other (expense) income, net related to the maturities and sales of available-for-sale securities for the three and six months ended June 30, 2012, were less than $0.1 million and $0.7 million, respectively. Unrealized gains, net of tax, reclassified out of accumulated other comprehensive income (loss) into other (expense) income, net related to the maturities and sales of available-for-sale securities for the three and six months ended June 30, 2011, were $1.3 million and $1.4 million, respectively.

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 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 values of the Company's Level 2 financial assets are 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 an 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 assets or liabilities. See below for a discussion of fair value measurements made using Level 3 inputs.

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

	June 30, 2012			
	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	$ 304,695	$	$	$ 304,695
Money market funds	7,848			7,848
Commercial paper		291,427		291,427
Time deposits		4,550		4,550
Marketable securities:				
Corporate debt securities		26,476		26,476
States of the U.S. and state political subdivisions		112,121		112,121
Long-term investments:				
Auction rate security			6,730	6,730
Marketable equity securities	92,047			92,047
Total	$ 404,590	$ 434,574	$ 6,730	$ 845,894

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 FAIR VALUE MEASUREMENTS (Continued)

	December 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	$ 321,314	$	$	$ 321,314
Commercial paper		237,942		237,942
Time deposits		4,750		4,750
Marketable securities:				
Corporate debt securities		48,705		48,705
States of the U.S. and state political subdivisions		112,323		112,323
Equity security	4,667			4,667
Long-term investments:				
Auction rate security			5,870	5,870
Marketable equity securities	74,691			74,691
Total	$ 400,672	$ 403,720	$ 5,870	$ 810,262
Liabilities:				
Contingent consideration arrangement	$	$	$ (10,000)	$ (10,000)

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

	Three Months Ended June 30,		
	2012	2011	
	Auction Rate Security	Auction Rate Security	Contingent Consideration Arrangement
	(In thousands)		
Balance at April 1	$ 7,720	$ 9,050	$ (40,000)
Total net losses (realized and unrealized):			
Included in other comprehensive income	(990)	(370)	
Settlements			30,000
Balance at June 30	$ 6,730	$ 8,680	$ (10,000)

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 FAIR VALUE MEASUREMENTS (Continued)

	Six Months Ended June 30,			
	2012		2011	
	Auction Rate Security	Contingent Consideration Arrangement	Auction Rate Securities	Contingent Consideration Arrangement
	(In thousands)			
Balance at January 1	$ 5,870	$ (10,000)	$ 13,100	$
Total net gains (realized and unrealized):				
Included in other comprehensive income	860		580	
Fair value at date of acquisition				(40,000)
Settlements		10,000	(5,000)	30,000
Balance at June 30	$ 6,730	$	$ 8,680	$ (10,000)

There are no gains or losses included in earnings for the three and six months ended June 30, 2012 and 2011, relating to the Company's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs.

Auction rate security

The Company's auction rate security is valued by discounting the estimated future cash flow stream of the security over the life of the security. Credit spreads and other risk factors are also considered in establishing fair value. The cost basis of the auction rate security is $10.0 million, with gross unrealized losses of $3.3 million and $4.1 million at June 30, 2012 and December 31, 2011, respectively. The unrealized losses are included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet. At June 30, 2012, the auction rate security is rated A/WR and matures in 2035. The Company does not consider the auction rate security to be other-than-temporarily impaired at June 30, 2012, 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 the recovery of its amortized cost basis, which may be maturity.

Contingent consideration arrangement

The fair value of the OkCupid contingent consideration arrangement at December 31, 2011 was based upon the achievement of the performance goals which required a $10.0 million payment.

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 adjusted to fair value only when an impairment charge is recognized. Such fair value measurements are based predominantly on Level 3 inputs.

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6 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.

	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Assets:				
Cash and cash equivalents	$ 807,196	$ 807,196	$ 704,153	$ 704,153
Marketable securities	138,597	138,597	165,695	165,695
Long-term marketable equity securities	92,047	92,047	74,691	74,691
Liabilities:				
Current maturities of long-term debt	(15,844)	(16,177)		
Long-term debt, net of current maturities	(80,000)	(81,773)	(95,844)	(93,339)

The carrying value of cash equivalents approximates fair value due to their short-term maturity. The fair value of long-term debt, including current maturities is estimated using quoted market prices or indices for similar liabilities and taking into consideration other factors such as credit quality and maturity. See Note 5 for description of the method used to determine the fair value of marketable securities. The fair value of long-term debt, including current maturities is determined only for disclosure purposes and is based on Level 3 inputs.

The cost basis of the Company's long-term marketable equity securities at June 30, 2012 was $50.8 million, with gross unrealized gains of $51.1 million and a gross unrealized loss of $9.9 million, included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet. The cost basis of the Company's long-term marketable equity securities at December 31, 2011 was $53.1 million, with gross unrealized gains of $29.8 million and a gross unrealized loss of $8.2 million. The Company evaluated the near-term prospects of the issuer of the equity security with the unrealized loss in relation to the severity and short duration of the unrealized loss and based on that evaluation and the Company's ability and intent to hold this investment for a reasonable period of time sufficient for an expected recovery of fair value, the Company does not consider this investment to be other-than-temporarily impaired at June 30, 2012.

At June 30, 2012 and December 31, 2011, the carrying values of the Company's investments accounted for under the cost method totaled $84.3 million and $82.3 million, respectively, and are included in "Long-term investments" in the accompanying consolidated balance sheet. The Company evaluates each cost method investment for possible impairment on a quarterly basis and determines the fair value if indicators of impairment are deemed to be present; the Company recognizes an impairment loss if a decline in value is determined to be other-than-temporary. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7 EARNINGS PER SHARE

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

	Three Months Ended June 30,			
	2012		2011	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Earnings from continuing operations	$ 48,101	$ 48,101	$ 45,630	$ 45,630
Net earnings attributable to noncontrolling interests	(128)	(128)	(718)	(718)
Earnings from continuing operations attributable to IAC shareholders	47,973	47,973	44,912	44,912
Loss from discontinued operations attributable to IAC shareholders	(4,641)	(4,641)	(2,488)	(2,488)
Net earnings attributable to IAC shareholders	$ 43,332	$ 43,332	$ 42,424	$ 42,424
Denominator:				
Weighted average basic shares outstanding	86,174	86,174	90,050	90,050
Dilutive securities including stock options, warrants, RSUs(a)(b)		5,766		7,252
Denominator for earnings per share weighted average shares(a)(b)	86,174	91,940	90,050	97,302
Earnings (loss) per share attributable to IAC shareholders:				
Earnings per share from continuing operations	$ 0.56	$ 0.52	$ 0.50	$ 0.46
Discontinued operations	(0.06)	(0.05)	(0.03)	(0.02)
Earnings per share	$ 0.50	$ 0.47	$ 0.47	$ 0.44

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7 EARNINGS PER SHARE (Continued)

	Six Months Ended June 30,			
	2012		2011	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Earnings from continuing operations	$ 79,254	$ 79,254	$ 65,798	$ 65,798
Net earnings attributable to noncontrolling interests	(487)	(487)	(868)	(868)
Earnings from continuing operations attributable to IAC shareholders	78,767	78,767	64,930	64,930
Loss from discontinued operations attributable to IAC shareholders	(957)	(957)	(4,436)	(4,436)
Net earnings attributable to IAC shareholders	$ 77,810	$ 77,810	$ 60,494	$ 60,494
Denominator:				
Weighted average basic shares outstanding	84,487	84,487	89,568	89,568
Dilutive securities including stock options, warrants, RSUs(a)(b)		7,342		5,923
Denominator for earnings per share weighted average shares(a)(b)	84,487	91,829	89,568	95,491
Earnings (loss) per share attributable to IAC shareholders:				
Earnings per share from continuing operations	$ 0.93	$ 0.86	$ 0.72	$ 0.68
Discontinued operations	(0.01)	(0.01)	(0.04)	(0.05)
Earnings per share	$ 0.92	$ 0.85	$ 0.68	$ 0.63

(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"). At June 30, 2012, there are no warrants outstanding. For both the three and six months ended June 30, 2012, approximately 0.6 million shares, respectively, related to potentially dilutive securities are excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. For the three and six months ended June 30, 2011, approximately 1.2 million and 1.3 million shares, respectively, related to potentially dilutive securities are excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

(b) There are no performance-based stock units ("PSUs") included in the denominator for earnings per share as the performance conditions have not been met for the respective reporting periods. For the three and six months ended June 30, 2012, approximately 3.0 million PSUs are excluded from the calculation of diluted earnings per share. For the three and six months ended June 30, 2011, approximately 3.3 million PSUs are excluded from the calculation of diluted earnings per share.

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 8 SEGMENT INFORMATION

The overall concept that IAC employs in determining its operating segments is to present the financial information in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of services or products offered or the target market. 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 Other, do not meet the quantitative thresholds that require separate presentation. See Note 12 for information on segment changes made in 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Revenue:				
Search & Applications	$ 348,762	$ 238,328	$ 691,960	$ 472,179
Match	178,418	116,429	352,693	228,026
Local	84,505	80,410	161,624	151,341
Media	38,368	19,511	54,279	33,119
Other	30,629	30,894	60,835	61,419
Inter-segment elimination	(70)	(168)	(179)	(467)
Total	$ 680,612	$ 485,404	$ 1,321,212	$ 945,617

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Operating Income (Loss):				
Search & Applications	$ 74,067	$ 50,651	$ 147,557	$ 99,272
Match	57,099	40,999	87,005	64,428
Local	11,670	9,326	15,459	15,160
Media	(7,305)	(3,390)	(13,974)	(7,708)
Other	(2,182)	(1,278)	(3,896)	(2,243)
Corporate	(35,873)	(38,077)	(71,910)	(73,342)
Total	$ 97,476	$ 58,231	$ 160,241	$ 95,567

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 8 SEGMENT INFORMATION (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Operating Income Before Amortization:				
Search & Applications	$ 74,079	$ 50,562	$ 147,579	$ 99,462
Match	62,645	42,335	99,973	67,323
Local	11,832	9,768	15,782	16,069
Media	(6,789)	(3,302)	(13,190)	(7,650)
Other	(1,755)	(975)	(3,153)	(1,631)
Corporate	(16,290)	(14,950)	(31,997)	(30,181)
Total	$ 123,722	$ 83,438	$ 214,994	$ 143,392

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Depreciation:				
Search & Applications	$ 3,385	$ 5,399	$ 6,676	$ 11,565
Match	3,742	2,278	7,279	4,578
Local	2,475	2,392	5,276	4,587
Media	295	88	474	393
Other	257	220	501	414
Corporate	2,071	2,073	4,134	4,352
Total	$ 12,225	$ 12,450	$ 24,340	$ 25,889

Revenue by geography is based on where the customer is located. Geographic information about revenue and long-lived assets is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Revenue:				
United States	$ 472,553	$ 384,835	$ 918,213	$ 757,497
All other countries	208,059	100,569	402,999	188,120
Total	$ 680,612	$ 485,404	$ 1,321,212	$ 945,617

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 8 SEGMENT INFORMATION (Continued)

	June 30, 2012	December 31, 2011
	(In thousands)	
Long-lived assets (excluding goodwill and intangible assets):		
United States	$ 241,747	$ 246,550
All other countries	14,179	13,038
Total	$ 255,926	$ 259,588

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, and (4) 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.

The following tables reconcile Operating Income Before Amortization to operating income (loss) for the Company's reportable segments:

	Three Months Ended June 30, 2012			
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Intangibles	Operating Income (Loss)
	(In thousands)			
Search & Applications	$ 74,079	$ (9)	$ (3)	$ 74,067
Match	62,645	(556)	(4,990)	57,099
Local	11,832		(162)	11,670
Media	(6,789)	(236)	(280)	(7,305)
Other	(1,755)	(57)	(370)	(2,182)
Corporate	(16,290)	(19,583)		(35,873)
Total	$ 123,722	$ (20,441)	$ (5,805)	$ 97,476

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 8 SEGMENT INFORMATION (Continued)

	Three Months Ended June 30, 2011			
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Intangibles	Operating Income (Loss)
	(In thousands)			
Search & Applications	$ 50,562	$ 291	$ (202)	$ 50,651
Match	42,335		(1,336)	40,999
Local	9,768		(442)	9,326
Media	(3,302)	(88)		(3,390)
Other	(975)	(83)	(220)	(1,278)
Corporate	(14,950)	(23,127)		(38,077)
Total	$ 83,438	$ (23,007)	$ (2,200)	$ 58,231

	Six Months Ended June 30, 2012			
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Intangibles	Operating Income (Loss)
	(In thousands)			
Search & Applications	$ 147,579	$ (17)	$ (5)	$ 147,557
Match	99,973	(1,463)	(11,505)	87,005
Local	15,782		(323)	15,459
Media	(13,190)	(504)	(280)	(13,974)
Other	(3,153)	(10)	(733)	(3,896)
Corporate	(31,997)	(39,913)		(71,910)
Total	$ 214,994	$ (41,907)	$ (12,846)	$ 160,241

	Six Months Ended June 30, 2011			
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Intangibles	Operating Income (Loss)
	(In thousands)			
Search & Applications	$ 99,462	$ 214	$ (404)	$ 99,272
Match	67,323		(2,895)	64,428
Local	16,069		(909)	15,160
Media	(7,650)	(55)	(3)	(7,708)
Other	(1,631)	(166)	(446)	(2,243)
Corporate	(30,181)	(43,161)		(73,342)
Total	$ 143,392	$ (43,168)	$ (4,657)	$ 95,567

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 9 CONSOLIDATED FINANCIAL STATEMENT DETAILS

Property and equipment, net

	June 30, 2012	December 31, 2011
	(In thousands)	
Buildings and leasehold improvements	$ 235,851	$ 235,737
Computer equipment and capitalized software	191,623	186,016
Furniture and other equipment	44,228	43,156
Projects in progress	11,343	7,643
Land	5,117	5,117
	488,162	477,669
Less: accumulated depreciation and amortization	(232,236)	(218,081)
Property and equipment, net	$ 255,926	$ 259,588

Accumulated other comprehensive loss

	June 30, 2012	December 31, 2011
	(In thousands)	
Foreign currency translation adjustment, net of tax	$ (41,734)	$ (25,174)
Unrealized gains on available-for-sale securities, net of tax	26,174	12,731
Accumulated other comprehensive loss	$ (15,560)	$ (12,443)

Other (expense) income, net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Interest income	$ 1,174	$ 1,150	$ 2,060	$ 2,452
Interest expense	(1,364)	(1,355)	(2,711)	(2,710)
(Loss) gain on sales of investments	(105)	698	1,659	1,544
Non-income tax refunds related to Match Europe, which was sold in 2009		4,630		4,630
Other	(1,437)	514	(1,331)	473
Other (expense) income, net	$ (1,732)	$ 5,637	$ (323)	$ 6,389

NOTE 10 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 10 CONTINGENCIES (Continued)

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 income and non-income tax contingencies, to assess the likelihood of an unfavorable outcome 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 2 for additional information related to income tax contingencies.

NOTE 11 SUBSEQUENT EVENTS

Between July 1, 2012 and July 20, 2012, IAC repurchased 1.3 million shares of common stock for aggregate consideration of $61.0 million.

On July 24, 2012, IAC's Board of Directors declared a quarterly cash dividend of $0.24 per share of common and Class B common stock outstanding payable on September 1, 2012 to stockholders of record on August 15, 2012.

NOTE 12 SUPPLEMENTAL SEGMENT INFORMATION

In 2012, the Company renamed and realigned its reportable segments. Search has been renamed "Search & Applications". The Media & Other segment has been separated into a "Media" segment and an "Other" segment. As previously disclosed in the first quarter of 2012, the Company created a new segment called "Local" that includes ServiceMagic, which was previously reported as its own separate segment, and CityGrid Media, which was previously included in the Search & Applications segment. In addition, DailyBurn was moved from the Search & Applications segment to the Media segment and Pronto was moved from the Media & Other segment to the Search & Applications segment.

The following tables provide financial information for the renamed and realigned reportable segments for the three months ended March 31, 2012, the three months ended March 31, June 30, September 30, and December 31, 2011 and the years ended December 31, 2011 and 2010:

	2012			2011			2010
	Q1	Q1	Q2	Q3	Q4	FYE 12/31	FYE 12/31
				(In thousands)			
Revenue:							
Search & Applications	$ 343,198	$ 233,851	$ 238,328	$ 258,875	$ 309,453	$ 1,040,507	$ 805,284
Match	174,275	111,597	116,429	132,328	157,673	518,027	400,723
Local	77,119	70,931	80,410	80,124	71,953	303,418	263,749
Media	15,911	13,608	19,511	18,692	18,353	70,164	49,692
Other	30,206	30,525	30,894	27,023	39,623	128,065	118,749
Inter-segment elimination	(109)	(299)	(168)	(158)	(112)	(737)	(1,382)
Total	$ 640,600	$ 460,213	$ 485,404	$ 516,884	$ 596,943	$ 2,059,444	$ 1,636,815

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 12 SUPPLEMENTAL SEGMENT INFORMATION (Continued)

	2012	2011					2010
	Q1	Q1	Q2	Q3	Q4	FYE 12/31	FYE 12/31
				(In thousands)			
Operating Income (Loss):							
Search & Applications	$ 73,490	$ 48,621	$ 50,651	$ 45,508	$ 59,226	$ 204,006	$ 128,356
Match	29,906	23,429	40,999	36,677	36,450	137,555	115,367
Local	3,789	5,834	9,326	7,324	3,049	25,533	8,405
Media	(6,669)	(4,318)	(3,390)	(2,837)	(5,730)	(16,275)	(23,385)
Other	(1,714)	(965)	(1,278)	(1,648)	(5)	(3,896)	(31,600)
Corporate	(36,037)	(35,265)	(38,077)	(38,284)	(37,535)	(149,161)	(147,348)
Total	$ 62,765	$ 37,336	$ 58,231	$ 46,740	$ 55,455	$ 197,762	$ 49,795
Non-cash compensation expense:							
Search & Applications	$ 8	$ 77	$ (291)	$ 4	$ 8	$ (202)	$ 630
Match	907			423	1,219	1,642	(153)
Local							
Media	268	(33)	88	186	186	427	458
Other	(47)	83	83	89	92	347	180
Corporate	20,330	20,034	23,127	22,183	21,030	86,374	83,165
Total	$ 21,466	$ 20,161	$ 23,007	$ 22,885	$ 22,535	$ 88,588	$ 84,280
Amortization of intangibles and goodwill impairment:							
Search & Applications	$ 2	$ 202	$ 202	$ 768	$ 4	$ 1,176	$ 11,806
Match	6,515	1,559	1,336	3,107	11,075	17,077	6,843
Local	161	467	442	443	1,399	2,751	2,266
Media		3				3	1,078
Other	363	226	220	220	384	1,050	33,511
Corporate							
Total	$ 7,041	$ 2,457	$ 2,200	$ 4,538	$ 12,862	$ 22,057	$ 55,504
Operating Income Before Amortization:							
Search & Applications	$ 73,500	$ 48,900	$ 50,562	$ 46,280	$ 59,238	$ 204,980	$ 140,792
Match	37,328	24,988	42,335	40,207	48,744	156,274	122,057
Local	3,950	6,301	9,768	7,767	4,448	28,284	10,671
Media	(6,401)	(4,348)	(3,302)	(2,651)	(5,544)	(15,845)	(21,849)
Other	(1,398)	(656)	(975)	(1,339)	471	(2,499)	2,091
Corporate	(15,707)	(15,231)	(14,950)	(16,101)	(16,505)	(62,787)	(64,183)
Total	$ 91,272	$ 59,954	$ 83,438	$ 74,163	$ 90,852	$ 308,407	$ 189,579
Depreciation:							
Search & Applications	$ 3,291	$ 6,166	$ 5,399	$ 9,824	$ 4,095	$ 25,484	$ 35,754

Match	3,537	2,300	2,278	2,481	3,721	10,780	11,042
Local	2,801	2,195	2,392	2,738	3,063	10,388	7,785
Media	179	305	88	153	157	703	245
Other	244	194	220	209	228	851	828
Corporate	2,063	2,279	2,073	2,079	2,082	8,513	8,243
Total	$ 12,115	$ 13,439	$ 12,450	$ 17,484	$ 13,346	$ 56,719	$ 63,897

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

GENERAL

Management Overview

IAC is a leading media and internet company comprised of more than 150 brands and products, including Match.com, Ask.com, CollegeHumor.com, and CityGrid Media. Focused in the areas of search, personals, local and media, IAC's family of websites is one of largest in the world, with nearly a billion monthly visits across more than 30 countries.

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, 2011.

Results of Operations for the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011

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 and six months ended June 30, 2012 and 2011.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	Growth	2011	2012	Growth	2011
	(Dollars in thousands)					
Revenue:						
Search & Applications	$ 348,762	46%	$ 238,328	$ 691,960	47%	$ 472,179
Match	178,418	53%	116,429	352,693	55%	228,026
Local	84,505	5%	80,410	161,624	7%	151,341
Media	38,368	97%	19,511	54,279	64%	33,119
Other	30,629	(1)%	30,894	60,835	(1)%	61,419
Inter-segment elimination	(70)	58%	(168)	(179)	62%	(467)
Total	$ 680,612	40%	$ 485,404	$ 1,321,212	40%	$ 945,617

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	Growth	2011	2012	Growth	2011
	(Dollars in thousands)					
Operating Income (Loss):						
Search & Applications	$ 74,067	46%	$ 50,651	$ 147,557	49%	$ 99,272
Match	57,099	39%	40,999	87,005	35%	64,428
Local	11,670	25%	9,326	15,459	2%	15,160
Media	(7,305)	(115)%	(3,390)	(13,974)	(81)%	(7,708)
Other	(2,182)	(71)%	(1,278)	(3,896)	(74)%	(2,243)
Corporate	(35,873)	6%	(38,077)	(71,910)	2%	(73,342)
Total	$ 97,476	67%	$ 58,231	$ 160,241	68%	$ 95,567

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	Growth	2011	2012	Growth	2011
	(Dollars in thousands)					
Operating Income Before Amortization:						
Search & Applications	$ 74,079	47%	$ 50,562	$ 147,579	48%	$ 99,462
Match	62,645	48%	42,335	99,973	48%	67,323
Local	11,832	21%	9,768	15,782	(2)%	16,069
Media	(6,789)	(106)%	(3,302)	(13,190)	(72)%	(7,650)
Other	(1,755)	(80)%	(975)	(3,153)	(93)%	(1,631)
Corporate	(16,290)	(9)%	(14,950)	(31,997)	(6)%	(30,181)
Total	$ 123,722	48%	$ 83,438	$ 214,994	50%	$ 143,392

In 2012, the Company renamed and realigned its reportable segments. Search has been renamed "Search & Applications". The Media & Other segment has been separated into a "Media" segment and an "Other" segment. As previously disclosed in the first quarter of 2012, the Company created a new segment called "Local" that includes ServiceMagic, which was previously reported as its own separate segment, and CityGrid Media, which was previously included in the Search & Applications segment. In addition, DailyBurn was moved from the Search & Applications segment to the Media segment and Pronto was moved from the Media & Other segment to the Search & Applications segment. Certain prior year amounts have been reclassified to conform to the current year presentation.

Our Search & Applications segment is comprised of Websites, which includes Ask.com, Pronto and Dictionary.com, excluding downloadable applications related to the aforementioned sites; and Applications, which includes our direct to consumer applications business (B2C) and our partnership operations (B2B), as well as downloadable applications related to Ask.com and Dictionary.com.

Refer to Note 8 to the consolidated financial statements for reconciliations of Operating Income Before Amortization to operating income (loss) by reportable segment.

Consolidated Results

Revenue

For the three months ended June 30, 2012 compared to the three months ended June 30, 2011

	Three Months Ended June 30,			
	2012	$ Change	% Change	2011
	(Dollars in thousands)			
Revenue	$ 680,612	$ 195,208	40%	$ 485,404

Revenue in 2012 increased from 2011 primarily as a result of increases of $110.4 million from Search & Applications, $62.0 million from Match and $18.9 million from Media. The increase from Search & Applications reflects strong growth from both its Applications and Websites operations. The increase from Match reflects the impact of Meetic, which has been consolidated since September 1, 2011 following Match's acquisition of a controlling interest and is, therefore, not in the prior year period, as well as growth from its Core operations (consisting of Match.com in the U.S., Chemistry and People Media). The increase from Media reflects the impact of The Newsweek/Daily Beast Company ("Newsweek Daily Beast"), consolidated beginning June 1, 2012 following the Company's acquisition of a controlling interest, as well as strong growth from Electus and Vimeo.

A substantial portion of the Company's revenue is derived from online advertising. Most of the Company's online advertising revenue is attributable to a paid listing supply agreement with Google Inc. ("Google"), which expires on March 31, 2016. For the three months ended June 30, 2012 and 2011, revenue earned from Google was $335.8 million and $221.3 million, respectively. This revenue was earned by the businesses comprising the Search & Applications segment.

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For the six months ended June 30, 2012 compared to the six months ended June 30, 2011

	Six Months Ended June 30,			
	2012	$ Change	% Change	2011
	(Dollars in thousands)			
Revenue	$ 1,321,212	$ 375,595	40%	$ 945,617