

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

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**FORM 10-Q**

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

For the Quarterly Period Ended June 30, 2012

Or

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

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

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**IAC/INTERACTIVECORP**

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 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.

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**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) |                     |
| <b>ASSETS</b>                                                                                                                                                                           |                                   |                     |
| 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             |
| <b>Total current assets</b>                                                                                                                                                             | <b>1,279,221</b>                  | <b>1,159,133</b>    |
| 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              |
| <b>TOTAL ASSETS</b>                                                                                                                                                                     | <b>\$ 3,546,348</b>               | <b>\$ 3,409,865</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                             |                                   |                     |
| <b>LIABILITIES:</b>                                                                                                                                                                     |                                   |                     |
| 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             |
| <b>Total current liabilities</b>                                                                                                                                                        | <b>609,543</b>                    | <b>534,185</b>      |
| 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                                                                                                                                                           |                                   |                     |
| <b>SHAREHOLDERS' EQUITY:</b>                                                                                                                                                            |                                   |                     |
| 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)         |
| <b>Total IAC shareholders' equity</b>                                                                                                                                                   | <b>1,942,916</b>                  | <b>1,905,049</b>    |
| Noncontrolling interests                                                                                                                                                                | 49,524                            | 55,091              |
| <b>Total shareholders' equity</b>                                                                                                                                                       | <b>1,992,440</b>                  | <b>1,960,140</b>    |

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|                                                   |    |           |    |           |
|---------------------------------------------------|----|-----------|----|-----------|
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | \$ | 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<br>June 30,        |                  | Six Months Ended<br>June 30, |                  |
|--------------------------------------------------------------------|---------------------------------------|------------------|------------------------------|------------------|
|                                                                    | 2012                                  | 2011             | 2012                         | 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)         |
| <b>Earnings from continuing operations</b>                         | <b>48,101</b>                         | <b>45,630</b>    | <b>79,254</b>                | <b>65,798</b>    |
| Loss from discontinued operations, net of tax                      | (4,641)                               | (2,488)          | (957)                        | (4,436)          |
| <b>Net earnings</b>                                                | <b>43,460</b>                         | <b>43,142</b>    | <b>78,297</b>                | <b>61,362</b>    |
| Net earnings attributable to noncontrolling interests              | (128)                                 | (718)            | (487)                        | (868)            |
| <b>Net earnings attributable to IAC shareholders</b>               | <b>\$ 43,332</b>                      | <b>\$ 42,424</b> | <b>\$ 77,810</b>             | <b>\$ 60,494</b> |
| <b>Per share information attributable to IAC shareholders:</b>     |                                       |                  |                              |                  |
| 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                      | \$               |
| <b>Non-cash compensation expense by function:</b>                  |                                       |                  |                              |                  |
| 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<br>June 30, |           | Six Months Ended<br>June 30, |            |
|--------------------------------------------------------------------------|--------------------------------|-----------|------------------------------|------------|
|                                                                          | 2012                           | 2011      | 2012                         | 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<br>Noncontrolling<br>Interests | Common<br>Stock \$.001<br>Par Value |         | Class B<br>Convertible<br>Common<br>Stock \$.001<br>Par Value |        | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total IAC<br>Shareholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Shareholders'<br>Equity |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------|---------|---------------------------------------------------------------|--------|----------------------------------|------------------------|-----------------------------------------------|-------------------|--------------------------------------|-----------------------------|----------------------------------|
|                                                                                                                                               |                                           | \$                                  | Shares  | \$                                                            | Shares |                                  |                        |                                               |                   |                                      |                             |                                  |
| (In thousands)                                                                                                                                |                                           |                                     |         |                                                               |        |                                  |                        |                                               |                   |                                      |                             |                                  |
| <b>Balance as of<br/>December 31, 2011</b>                                                                                                    | \$ 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<br>the six months ended<br>June 30, 2012                                                                              | (827)                                     |                                     |         |                                                               |        |                                  | 77,810                 |                                               |                   | 77,810                               | 1,314                       | 79,124                           |
| Other comprehensive<br>loss, net of tax                                                                                                       | (1,441)                                   |                                     |         |                                                               |        |                                  |                        | (3,117)                                       |                   | (3,117)                              | (1,548)                     | (4,665)                          |
| Non-cash<br>compensation expense                                                                                                              |                                           |                                     |         |                                                               |        | 40,444                           |                        |                                               |                   | 40,444                               | 1,463                       | 41,907                           |
| Issuance of common<br>stock upon exercise of<br>stock options, vesting<br>of restricted stock<br>units and other, net of<br>withholding taxes |                                           | 2                                   | 1,987   |                                                               |        | 17,504                           |                        |                                               |                   | 17,506                               |                             | 17,506                           |
| Income tax benefit<br>related to the exercise<br>of stock options,<br>vesting of restricted<br>stock units and other                          |                                           |                                     |         |                                                               |        | 9,764                            |                        |                                               |                   | 9,764                                |                             | 9,764                            |
| Issuance of common<br>stock upon the<br>exercise of warrants                                                                                  |                                           | 12                                  | 11,728  |                                                               |        | 284,099                          |                        |                                               |                   | 284,111                              |                             | 284,111                          |
| Dividends                                                                                                                                     |                                           |                                     |         |                                                               |        | (22,798)                         |                        |                                               |                   | (22,798)                             |                             | (22,798)                         |
| Purchase of treasury<br>stock                                                                                                                 |                                           |                                     |         |                                                               |        |                                  |                        |                                               | (362,153)         | (362,153)                            |                             | (362,153)                        |
| Purchase of<br>redeemable<br>noncontrolling<br>interests                                                                                      | (2,955)                                   |                                     |         |                                                               |        |                                  |                        |                                               |                   |                                      |                             |                                  |
| Fair value of<br>redeemable<br>noncontrolling<br>interests adjustment                                                                         | 3,700                                     |                                     |         |                                                               |        | (3,700)                          |                        |                                               |                   | (3,700)                              |                             | (3,700)                          |
| Transfer from<br>noncontrolling<br>interests to redeemable<br>noncontrolling<br>interests                                                     | 6,796                                     |                                     |         |                                                               |        |                                  |                        |                                               |                   |                                      | (6,796)                     | (6,796)                          |
| Other                                                                                                                                         | 715                                       |                                     |         |                                                               |        |                                  |                        |                                               |                   |                                      |                             |                                  |
| <b>Balance as of<br/>June 30, 2012</b>                                                                                                        | \$ 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<br>June 30, |                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------|
|                                                                                                                                                  | 2012                         | 2011             |
|                                                                                                                                                  | (In thousands)               |                  |
| <b>Cash flows from operating activities attributable to continuing operations:</b>                                                               |                              |                  |
| Net earnings                                                                                                                                     | \$ 78,297                    | \$ 61,362        |
| Less: Discontinued operations, net of tax                                                                                                        | (957)                        | (4,436)          |
| <b>Earnings from continuing operations</b>                                                                                                       | <b>79,254</b>                | <b>65,798</b>    |
| 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            |
| <b>Net cash provided by operating activities attributable to continuing operations</b>                                                           | <b>205,527</b>               | <b>157,160</b>   |
| <b>Cash flows from investing activities attributable to continuing operations:</b>                                                               |                              |                  |
| 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)          |
| <b>Net cash used in investing activities attributable to continuing operations</b>                                                               | <b>(32,338)</b>              | <b>(189,750)</b> |
| <b>Cash flows from financing activities attributable to continuing operations:</b>                                                               |                              |                  |
| 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               |
| <b>Net cash used in financing activities attributable to continuing operations</b>                                                               | <b>(67,740)</b>              | <b>(85,313)</b>  |
| <b>Total cash provided by (used in) continuing operations</b>                                                                                    | <b>105,449</b>               | <b>(117,903)</b> |
| <b>Total cash used in discontinued operations</b>                                                                                                | <b>(729)</b>                 | <b>(2,913)</b>   |
| Effect of exchange rate changes on cash and cash equivalents                                                                                     | (1,677)                      | 1,583            |



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|                                                             |            |            |
|-------------------------------------------------------------|------------|------------|
| <b>Net increase (decrease) in cash and cash equivalents</b> | 103,043    | (119,233)  |
| Cash and cash equivalents at beginning of period            | 704,153    | 742,099    |
| <b>Cash and cash equivalents at end of period</b>           | \$ 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

IAC/INTERACTIVECORP

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.

|                                                             | <b>Three Months Ended<br/>June 30, 2011</b>  | <b>Six Months Ended<br/>June 30, 2011</b> |
|-------------------------------------------------------------|----------------------------------------------|-------------------------------------------|
|                                                             | <b>(In thousands, except per share data)</b> |                                           |
| 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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## IAC/INTERACTIVECORP

## 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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>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                 |
| <b>Total debt securities</b>                        | <b>137,961</b>    | <b>654</b>                   | <b>(18)</b>                   | <b>138,597</b>          |
| Total marketable securities                         | \$ 137,961        | \$ 654                       | \$ (18)                       | \$ 138,597              |

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

|                                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>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                 |
| <b>Total debt securities</b>                        | <b>160,379</b>    | <b>686</b>                   | <b>(37)</b>                   | <b>161,028</b>          |
| Equity security                                     | 4,656             | 11                           |                               | 4,667                   |
| <b>Total marketable securities</b>                  | <b>\$ 165,035</b> | <b>\$ 697</b>                | <b>\$ (37)</b>                | <b>\$ 165,695</b>       |

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<br>Cost | Estimated<br>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                  |
| <b>Total</b>                          | <b>\$ 137,961</b> | <b>\$ 138,597</b>       |

## IAC/INTERACTIVECORP

## 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 |        | Six Months Ended |         |
|--------------------------------------------------------------------------------|--------------------|--------|------------------|---------|
|                                                                                | June 30,           |        | June 30,         |         |
|                                                                                | 2012               | 2011   | 2012             | 2011    |
| (In thousands)                                                                 |                    |        |                  |         |
| Proceeds from maturities and sales of available-for-sale marketable securities | \$                 | 21,376 | \$               | 215,139 |
| Gross realized gains                                                           |                    | 15     |                  | 1,022   |
| Gross realized losses                                                          |                    |        |                  | 1,798   |
|                                                                                |                    |        |                  | 413,904 |
|                                                                                |                    |        |                  | (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                                                                     |                                                           |                                                    | Total<br>Fair Value<br>Measurements |
|-----------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|-------------------------------------|
|                                                     | Quoted Market<br>Prices in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                                     |
| (In thousands)                                      |                                                                                   |                                                           |                                                    |                                     |
| <b>Assets:</b>                                      |                                                                                   |                                                           |                                                    |                                     |
| 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                              |
| <b>Total</b>                                        | <b>\$ 404,590</b>                                                                 | <b>\$ 434,574</b>                                         | <b>\$ 6,730</b>                                    | <b>\$ 845,894</b>                   |



## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## NOTE 5 FAIR VALUE MEASUREMENTS (Continued)

|                                                     | December 31, 2011                                                                 |                                                           |                                                    |           | Total<br>Fair Value<br>Measurements |
|-----------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|-----------|-------------------------------------|
|                                                     | Quoted Market<br>Prices in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |           |                                     |
| (In thousands)                                      |                                                                                   |                                                           |                                                    |           |                                     |
| <b>Assets:</b>                                      |                                                                                   |                                                           |                                                    |           |                                     |
| 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                              |
| <b>Total</b>                                        | <b>\$ 400,672</b>                                                                 | <b>\$ 403,720</b>                                         | <b>\$ 5,870</b>                                    | <b>\$</b> | <b>\$ 810,262</b>                   |
| <b>Liabilities:</b>                                 |                                                                                   |                                                           |                                                    |           |                                     |
| 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<br>Security    | Auction Rate<br>Security | Contingent<br>Consideration<br>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                                     |
| <b>Balance at June 30</b>                   | <b>\$ 6,730</b>             | <b>\$ 8,680</b>          | <b>\$ (10,000)</b>                         |

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## NOTE 5 FAIR VALUE MEASUREMENTS (Continued)

|                                            | Six Months Ended June 30, |                                            |                            |                                            |
|--------------------------------------------|---------------------------|--------------------------------------------|----------------------------|--------------------------------------------|
|                                            | 2012                      |                                            | 2011                       |                                            |
|                                            | Auction Rate<br>Security  | Contingent<br>Consideration<br>Arrangement | Auction Rate<br>Securities | Contingent<br>Consideration<br>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)                            |                |            |                   |            |
| <b>Assets:</b>                            |                |            |                   |            |
| 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     |
| <b>Liabilities:</b>                       |                |            |                   |            |
| 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)                                |                             |           |           |           |
| <b>Numerator:</b>                                                    |                             |           |           |           |
| 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 |
| <b>Denominator:</b>                                                  |                             |           |           |           |
| 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    |
| <b>Earnings (loss) per share attributable to IAC shareholders:</b>   |                             |           |           |           |
| 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)                                |                           |           |           |           |
| <b>Numerator:</b>                                                    |                           |           |           |           |
| 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 |
| <b>Denominator:</b>                                                  |                           |           |           |           |
| 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    |
| <b>Earnings (loss) per share attributable to IAC shareholders:</b>   |                           |           |           |           |
| 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<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---------------------------|--------------------------------|------------|------------------------------|------------|
|                           | 2012                           | 2011       | 2012                         | 2011       |
| (In thousands)            |                                |            |                              |            |
| <b>Revenue:</b>           |                                |            |                              |            |
| 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<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                 | 2012                           | 2011      | 2012                         | 2011      |
| (In thousands)                  |                                |           |                              |           |
| <b>Operating Income (Loss):</b> |                                |           |                              |           |
| 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<br>June 30, |           | Six Months Ended<br>June 30, |            |
|----------------------------------------------|--------------------------------|-----------|------------------------------|------------|
|                                              | 2012                           | 2011      | 2012                         | 2011       |
| (In thousands)                               |                                |           |                              |            |
| <b>Operating Income Before Amortization:</b> |                                |           |                              |            |
| 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<br>June 30, |           | Six Months Ended<br>June 30, |           |
|-----------------------|--------------------------------|-----------|------------------------------|-----------|
|                       | 2012                           | 2011      | 2012                         | 2011      |
| (In thousands)        |                                |           |                              |           |
| <b>Depreciation:</b>  |                                |           |                              |           |
| 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<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---------------------|--------------------------------|------------|------------------------------|------------|
|                     | 2012                           | 2011       | 2012                         | 2011       |
| (In thousands)      |                                |            |                              |            |
| <b>Revenue:</b>     |                                |            |                              |            |
| 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,<br>2012 | December 31,<br>2011 |
|----------------------------------------------------------------------|------------------|----------------------|
|                                                                      | (In thousands)   |                      |
| <b>Long-lived assets (excluding goodwill and intangible assets):</b> |                  |                      |
| 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<br>Income<br>(Loss) |
|-----------------------|--------------------------------------------|-------------------------------------|--------------------------------|-------------------------------|
|                       | Operating<br>Income Before<br>Amortization | Non-Cash<br>Compensation<br>Expense | Amortization<br>of Intangibles |                               |
|                       | (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<br>Income Before<br>Amortization | Non-Cash<br>Compensation<br>Expense | Amortization<br>of Intangibles | Operating<br>Income<br>(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<br>Income Before<br>Amortization | Non-Cash<br>Compensation<br>Expense | Amortization<br>of Intangibles | Operating<br>Income<br>(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<br>Income Before<br>Amortization | Non-Cash<br>Compensation<br>Expense | Amortization<br>of Intangibles | Operating<br>Income<br>(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                     |



## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## NOTE 9 CONSOLIDATED FINANCIAL STATEMENT DETAILS

## Property and equipment, net

|                                                 | June 30,<br>2012 | December 31,<br>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,<br>2012 | December 31,<br>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<br>June 30, |          | Six Months Ended<br>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

## IAC/INTERACTIVECORP

## 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) |            |            |            |            |              |              |
| <b>Revenue:</b>           |                |            |            |            |            |              |              |
| 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 |

## IAC/INTERACTIVECORP

## 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) |           |           |           |           |            |            |
| <b>Operating Income (Loss):</b>                             |                |           |           |           |           |            |            |
| 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  |
| <b>Non-cash compensation expense:</b>                       |                |           |           |           |           |            |            |
| 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  |
| <b>Amortization of intangibles and goodwill impairment:</b> |                |           |           |           |           |            |            |
| 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  |
| <b>Operating Income Before Amortization:</b>                |                |           |           |           |           |            |            |
| 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 |
| <b>Depreciation:</b>                                        |                |           |           |           |           |            |            |
| Search &                                                    |                |           |           |           |           |            |            |
| Applications                                                | \$ 3,291       | \$ 6,166  | \$ 5,399  | \$ 9,824  | \$ 4,095  | \$ 25,484  | \$ 35,754  |

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|           |           |           |           |           |           |           |           |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 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)    |                             |            |                   |                           |            |                   |
| <b>Revenue:</b>           |                             |            |                   |                           |            |                   |
| 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)             |
| <b>Total</b>              | <b>\$ 680,612</b>           | <b>40%</b> | <b>\$ 485,404</b> | <b>\$ 1,321,212</b>       | <b>40%</b> | <b>\$ 945,617</b> |

|                                 | Three Months Ended June 30, |            |                  | Six Months Ended June 30, |            |                  |
|---------------------------------|-----------------------------|------------|------------------|---------------------------|------------|------------------|
|                                 | 2012                        | Growth     | 2011             | 2012                      | Growth     | 2011             |
| (Dollars in thousands)          |                             |            |                  |                           |            |                  |
| <b>Operating Income (Loss):</b> |                             |            |                  |                           |            |                  |
| 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)         |
| <b>Total</b>                    | <b>\$ 97,476</b>            | <b>67%</b> | <b>\$ 58,231</b> | <b>\$ 160,241</b>         | <b>68%</b> | <b>\$ 95,567</b> |

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|                                              | Three Months Ended June 30, |            |                  | Six Months Ended June 30, |            |                   |
|----------------------------------------------|-----------------------------|------------|------------------|---------------------------|------------|-------------------|
|                                              | 2012                        | Growth     | 2011             | 2012                      | Growth     | 2011              |
| (Dollars in thousands)                       |                             |            |                  |                           |            |                   |
| <b>Operating Income Before Amortization:</b> |                             |            |                  |                           |            |                   |
| 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)          |
| <b>Total</b>                                 | <b>\$ 123,722</b>           | <b>48%</b> | <b>\$ 83,438</b> | <b>\$ 214,994</b>         | <b>50%</b> | <b>\$ 143,392</b> |

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, |            |          | 2011       |
|------------------------|-----------------------------|------------|----------|------------|
|                        | 2012                        | \$ Change  | % Change |            |
| (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*

|         | <b>Six Months Ended June 30,</b> |                  |                 |             |
|---------|----------------------------------|------------------|-----------------|-------------|
|         | <b>2012</b>                      | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|         | <b>(Dollars in thousands)</b>    |                  |                 |             |
| Revenue | \$ 1,321,212                     | \$ 375,595       | 40%             | \$ 945,617  |

Revenue in 2012 increased from 2011 primarily as a result of increases of \$219.8 million from Search & Applications, \$124.7 million from Match, \$21.2 million from Media and \$10.3 million from Local. The increases in revenue from Search & Applications, Match and Media are primarily due to the factors described above in the three month discussion. The increase from Local reflects growth from ServiceMagic's domestic and international operations.

For the six months ended June 30, 2012 and 2011, revenue earned from Google was \$664.7 million and \$436.2 million, respectively.

### **Cost of revenue**

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

|                            | <b>Three Months Ended June 30,</b> |                  |                 |             |
|----------------------------|------------------------------------|------------------|-----------------|-------------|
|                            | <b>2012</b>                        | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                            | <b>(Dollars in thousands)</b>      |                  |                 |             |
| Cost of revenue            | \$236,690                          | \$55,218         | 30%             | \$181,472   |
| As a percentage of revenue | 35%                                |                  | (261) bp        | 37%         |

bp = basis points

Cost of revenue consists primarily of traffic acquisition costs. Traffic acquisition costs consist of payments made to partners who distribute our B2B 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, 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 2012 increased from 2011 primarily due to increases of \$33.0 million from Search & Applications, \$16.2 million from Media and \$6.1 million from Match. The increase from Search & Applications was primarily due to an increase of \$34.4 million in traffic acquisition costs primarily related to the increased revenue of our B2B operations. As a percentage of revenue, traffic acquisition costs at Search & Applications decreased compared to the prior year period due to an increase in the proportion of revenue from Websites that resulted from increased online marketing. Cost of revenue from Media increased primarily due to Newsweek Daily Beast, consolidated beginning June 1, 2012, and Electus. The increase from Match is due to the acquisition of Meetic, which was not in the prior year period.

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

|                            | <b>Six Months Ended June 30,</b> |                  |                 |             |
|----------------------------|----------------------------------|------------------|-----------------|-------------|
|                            | <b>2012</b>                      | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                            | <b>(Dollars in thousands)</b>    |                  |                 |             |
| Cost of revenue            | \$460,261                        | \$106,071        | 30%             | \$354,190   |
| As a percentage of revenue | 35%                              |                  | (262) bp        | 37%         |

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Cost of revenue in 2012 increased from 2011 primarily due to increases of \$76.0 million from Search & Applications, \$17.2 million from Media and \$11.1 million from Match. These increases are primarily due to the factors described above in the three month discussion.

### *Selling and marketing expense*

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

|                               | <b>Three Months Ended June 30,</b> |                  |                 |             |
|-------------------------------|------------------------------------|------------------|-----------------|-------------|
|                               | <b>2012</b>                        | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                               | <b>(Dollars in thousands)</b>      |                  |                 |             |
| Selling and marketing expense | \$213,070                          | \$79,852         | 60%             | \$133,218   |
| As a percentage of revenue    | 31%                                |                  | 386 bp          | 27%         |

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 our B2C downloadable applications, and offline marketing, which is primarily television advertising.

Selling and marketing expense in 2012 increased from 2011 primarily due to increases of \$55.7 million from Search & Applications and \$23.7 million from Match. The increase from Search & Applications is primarily due to an increase in online marketing related to Ask.com and from existing B2C downloadable applications. Selling and marketing expense at Match increased primarily due to the acquisition of Meetic, which was not in the prior year period.

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

|                               | <b>Six Months Ended June 30,</b> |                  |                 |             |
|-------------------------------|----------------------------------|------------------|-----------------|-------------|
|                               | <b>2012</b>                      | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                               | <b>(Dollars in thousands)</b>    |                  |                 |             |
| Selling and marketing expense | \$432,908                        | \$159,440        | 58%             | \$273,468   |
| As a percentage of revenue    | 33%                              |                  | 385 bp          | 29%         |

Selling and marketing expense in 2012 increased from 2011 primarily due to increases of \$100.1 million from Search & Applications and \$55.7 million from Match. The increases from Search & Applications and Match are primarily due to the factors described above in the three month discussion.

### *General and administrative expense*

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

|                                    | <b>Three Months Ended June 30,</b> |                  |                 |             |
|------------------------------------|------------------------------------|------------------|-----------------|-------------|
|                                    | <b>2012</b>                        | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                                    | <b>(Dollars in thousands)</b>      |                  |                 |             |
| General and administrative expense | \$92,231                           | \$11,678         | 14%             | \$80,553    |
| As a percentage of revenue         | 14%                                |                  | (304) bp        | 17%         |

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.

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General and administrative expense in 2012 increased from 2011 primarily due to increases of \$7.1 million from Match and \$4.6 million from Media. The increase from Match resulted primarily from the acquisition of Meetic, which was not in the prior year period. The increase from Media is primarily due to increases from Vimeo and Electus. As a percentage of revenue, general and administrative expense decreased from 2011 primarily due to operating expense leverage at Corporate and Search & Applications.

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

|                                    | <b>Six Months Ended June 30,</b> |                  |                 |             |
|------------------------------------|----------------------------------|------------------|-----------------|-------------|
|                                    | <b>2012</b>                      | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                                    | <b>(Dollars in thousands)</b>    |                  |                 |             |
| General and administrative expense | \$184,019                        | \$27,175         | 17%             | \$156,844   |
| As a percentage of revenue         | 14%                              |                  | (266) bp        | 17%         |

General and administrative expense in 2012 increased from 2011 primarily due to increases of \$15.6 million from Match, \$7.9 million from Media and \$6.1 million from Local. The increases from Match and Media are primarily due to the factors described above in the three month discussion. Partially offsetting the increase in general and administrative expense from Match is a decrease in professional fees due, in part, to the inclusion in the prior year period of \$1.1 million in transaction fees associated with the Meetic acquisition. General and administrative expense from Local increased primarily due to higher compensation and employee-related expenses at both ServiceMagic and CityGrid Media.

### **Product development expense**

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

|                             | <b>Three Months Ended June 30,</b> |                  |                 |             |
|-----------------------------|------------------------------------|------------------|-----------------|-------------|
|                             | <b>2012</b>                        | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                             | <b>(Dollars in thousands)</b>      |                  |                 |             |
| Product development expense | \$23,115                           | \$5,835          | 34%             | \$17,280    |
| As a percentage of revenue  | 3%                                 |                  | (16) 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 2012 increased from 2011 primarily due to increases of \$3.9 million from Match and \$1.1 million from Other. The increase in Match is primarily due to an increase in headcount and the acquisition of Meetic, which was not in the prior year period. The increase from Other is primarily due to increased investment in Hatch Labs.

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

|                             | <b>Six Months Ended June 30,</b> |                  |                 |             |
|-----------------------------|----------------------------------|------------------|-----------------|-------------|
|                             | <b>2012</b>                      | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                             | <b>(Dollars in thousands)</b>    |                  |                 |             |
| Product development expense | \$46,597                         | \$11,595         | 33%             | \$35,002    |
| As a percentage of revenue  | 4%                               |                  | (17) bp         | 4%          |

Product development expense in 2012 increased from 2011 primarily due to increases of \$8.3 million from Match and \$1.9 million from Other. The increases from Match and Other are primarily due to the factors described above in the three month discussion.

**Depreciation**

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

|                            | <b>Three Months Ended June 30,</b> |                  |                 |             |
|----------------------------|------------------------------------|------------------|-----------------|-------------|
|                            | <b>2012</b>                        | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                            | <b>(Dollars in thousands)</b>      |                  |                 |             |
| Depreciation expense       | \$12,225                           | \$(225)          | (2)%            | \$12,450    |
| As a percentage of revenue | 2%                                 |                  | (77) bp         | 3%          |

Depreciation in 2012 decreased slightly from 2011 resulting primarily from the write-off of certain capitalized software costs at Search & Applications in 2011, partially offset by an increase in depreciation from Match, which is primarily due to the acquisition of Meetic.

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

|                            | <b>Six Months Ended June 30,</b> |                  |                 |             |
|----------------------------|----------------------------------|------------------|-----------------|-------------|
|                            | <b>2012</b>                      | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                            | <b>(Dollars in thousands)</b>    |                  |                 |             |
| Depreciation expense       | \$24,340                         | \$(1,549)        | (6)%            | \$25,889    |
| As a percentage of revenue | 2%                               |                  | (90) bp         | 3%          |

Depreciation in 2012 decreased from 2011 resulting primarily from the factors described above in the three month discussion.

**Operating Income Before Amortization**

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

|                                      | <b>Three Months Ended June 30,</b> |                  |                 |             |
|--------------------------------------|------------------------------------|------------------|-----------------|-------------|
|                                      | <b>2012</b>                        | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                                      | <b>(Dollars in thousands)</b>      |                  |                 |             |
| Operating Income Before Amortization | \$123,722                          | \$40,284         | 48%             | \$83,438    |
| As a percentage of total revenue     | 18%                                |                  | 99 bp           | 17%         |

Operating Income Before Amortization in 2012 increased from 2011 primarily due to increases of \$23.5 million from Search & Applications and \$20.3 million from Match, partially offset by increased losses of \$3.5 million from Media. The increase from Search & Applications is primarily due to higher revenue and operating expense leverage. The increase from Match is primarily due to the acquisition of Meetic, which was not in the prior year period, and higher Core revenue. Increased losses from Media is primarily due to the inclusion of Newsweek Daily Beast, consolidated beginning June 1, 2012, and increased operating expenses at CollegeHumor.

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

|                                      | <b>Six Months Ended June 30,</b> |                  |                 |             |
|--------------------------------------|----------------------------------|------------------|-----------------|-------------|
|                                      | <b>2012</b>                      | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                                      | <b>(Dollars in thousands)</b>    |                  |                 |             |
| Operating Income Before Amortization | \$214,994                        | \$71,602         | 50%             | \$143,392   |
| As a percentage of total revenue     | 16%                              |                  | 111 bp          | 15%         |

Operating Income Before Amortization in 2012 increased from 2011 primarily due to increases of \$48.1 million from Search & Applications and \$32.6 million from Match, partially offset by increased losses of \$5.5 million from Media, all of which were due primarily to the factors described above in the three month discussion.

**Operating income**

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

|                            | Three Months Ended June 30, |           |          | 2011     |
|----------------------------|-----------------------------|-----------|----------|----------|
|                            | 2012                        | \$ Change | % Change |          |
|                            | (Dollars in thousands)      |           |          |          |
| Operating income           | \$97,476                    | \$39,245  | 67%      | \$58,231 |
| As a percentage of revenue | 14%                         |           | 233 bp   | 12%      |

Operating income in 2012 increased from 2011 primarily due to the increase of \$40.3 million in Operating Income Before Amortization described above and a decrease of \$2.6 million in non-cash compensation expense, partially offset by an increase of \$3.6 million in amortization of intangibles. The decrease in non-cash compensation expense is primarily related to a charge in the prior year period related to a modification of certain awards and the reduction in expense in the current year period related to the reassessment of the probability of the vesting of certain performance-based awards. The increase in amortization of intangibles is due to the acquisition of Meetic.

At June 30, 2012, there was \$114.1 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.

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

|                            | Six Months Ended June 30, |           |          | 2011     |
|----------------------------|---------------------------|-----------|----------|----------|
|                            | 2012                      | \$ Change | % Change |          |
|                            | (Dollars in thousands)    |           |          |          |
| Operating income           | \$160,241                 | \$64,674  | 68%      | \$95,567 |
| As a percentage of revenue | 12%                       |           | 202 bp   | 10%      |

Operating income in 2012 increased from 2011 primarily due to the increase of \$71.6 million in Operating Income Before Amortization described above and a decrease of \$1.3 million in non-cash compensation expense, partially offset by an increase of \$8.2 million in amortization of intangibles. The decrease in non-cash compensation expense and the increase in amortization of intangibles are primarily due to the factors described above in the three month discussion. The decrease in non-cash compensation expense was further impacted by awards becoming fully vested, partially offset by equity grants issued subsequent to the second quarter of 2011.

**Other income (expense)**

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

|                                               | Three Months Ended June 30, |             |          | 2011       |
|-----------------------------------------------|-----------------------------|-------------|----------|------------|
|                                               | 2012                        | \$ Change   | % Change |            |
|                                               | (Dollars in thousands)      |             |          |            |
| Equity in losses of unconsolidated affiliates | \$ (19,009)                 | \$ (10,289) | (118)%   | \$ (8,720) |

Equity in losses of unconsolidated affiliates in 2012 includes a pre-tax non-cash charge of \$18.6 million related to the re-measurement of the carrying value of our investment in Newsweek Daily Beast to fair value in connection with our acquisition of a controlling interest. Equity

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in losses of unconsolidated affiliates in 2011 includes the losses from our investment in Newsweek Daily Beast.

| <b>Three Months Ended June 30,</b> |             |                  |                 |             |
|------------------------------------|-------------|------------------|-----------------|-------------|
|                                    | <b>2012</b> | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
| <b>(Dollars in thousands)</b>      |             |                  |                 |             |
| Other (expense) income, net        | \$ (1,732)  | \$ (7,369)       | NM              | \$ 5,637    |

Other (expense) income, net in 2012 decreased from 2011 primarily due to the inclusion of \$4.6 million in gains associated with certain non-income tax refunds related to Match Europe, which was sold in 2009, as well as an increase in foreign exchange losses.

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

| <b>Six Months Ended June 30,</b>              |             |                  |                 |             |
|-----------------------------------------------|-------------|------------------|-----------------|-------------|
|                                               | <b>2012</b> | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
| <b>(Dollars in thousands)</b>                 |             |                  |                 |             |
| Equity in losses of unconsolidated affiliates | \$ (24,910) | \$ (14,311)      | (135)%          | \$ (10,599) |

Equity in losses of unconsolidated affiliates in 2012 and 2011 are due to the factors described above in the three month discussion. Equity in losses of unconsolidated affiliates in 2011 also reflects the inclusion of earnings from our investment in Meetic, which was accounted for as an equity method investment prior to September 1, 2011, the date we achieved control.

| <b>Six Months Ended June 30,</b> |             |                  |                 |             |
|----------------------------------|-------------|------------------|-----------------|-------------|
|                                  | <b>2012</b> | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
| <b>(Dollars in thousands)</b>    |             |                  |                 |             |
| Other (expense) income, net      | \$ (323)    | \$ (6,712)       | NM              | \$ 6,389    |

Other (expense) income, net in 2012 decreased from 2011 primarily due to the factors described above in the three month discussion.

### ***Income tax provision***

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

| <b>Three Months Ended June 30,</b> |             |                  |                 |             |
|------------------------------------|-------------|------------------|-----------------|-------------|
|                                    | <b>2012</b> | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
| <b>(Dollars in thousands)</b>      |             |                  |                 |             |
| Income tax provision               | \$ (28,634) | \$ (19,116)      | NM              | \$ (9,518)  |

In 2012, the Company recorded an income tax provision for continuing operations of \$28.6 million, which represents an effective income tax rate of 37%. The 2012 effective rate 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 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. In 2011, the Company recorded an income tax provision for continuing operations of \$9.5 million, which represents an effective income tax rate of 17%. The 2011 effective rate is lower than the 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.

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

|                      | <b>Six Months Ended June 30,</b> |                  |                 |             |
|----------------------|----------------------------------|------------------|-----------------|-------------|
|                      | <b>2012</b>                      | <b>\$ Change</b> | <b>% Change</b> | <b>2011</b> |
|                      | <b>(Dollars in thousands)</b>    |                  |                 |             |
| Income tax provision | \$ (55,754)                      | \$ (30,195)      | NM              | \$ (25,559) |

In 2012, the Company recorded an income tax provision for continuing operations of \$55.8 million, which represents an effective income tax rate of 41%. The 2012 effective rate 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. In 2011, the Company recorded an income tax provision for continuing operations of \$25.6 million, which represents an effective income tax rate of 28%. The 2011 effective rate is lower than the 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, the Company has unrecognized tax benefits of \$369.6 million and \$351.6 million, respectively. Unrecognized tax benefits at June 30, 2012 increased \$18.1 million from December 31, 2011 due principally to a net increase in deductible timing differences. 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 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 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.



## Segment Results

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

### *Search & Applications*

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

Revenue increased 46% to \$348.8 million, reflecting strong growth from both Applications and Websites. Applications revenue grew 49% to \$177.7 million, driven by increased contributions from existing and new partners and products. Websites revenue grew 44% to \$171.1 million, reflecting query gains of 66% driven primarily by increased marketing and content optimization. Websites revenue grew more slowly than queries due to the prior year period benefiting from \$7.0 million of revenue related to our direct sponsored listings business, which was sold in November 2011, as well as flat revenue at Pronto and relatively modest revenue growth at Dictionary.com.

Operating Income Before Amortization increased 47% to \$74.1 million, benefiting from the higher revenue noted above and a decrease in depreciation, partially offset by increases of \$55.7 million in selling and marketing expense and \$34.4 million in traffic acquisition costs. The decrease in depreciation is due to the write-off of certain capitalized software costs in 2011. The increase in selling and marketing expense is primarily due to an increase in advertising and promotional expenditures, driven primarily by increased online marketing related to Ask.com and existing B2C downloadable applications. The increase in traffic acquisition costs is primarily due to increased revenue from our B2B operations.

Operating income increased 46% to \$74.1 million, principally due to the increase in Operating Income Before Amortization described above.

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

Revenue increased 47% to \$692.0 million. Applications and Websites revenue increased 53% and 40%, respectively, to \$361.6 million and \$330.4 million, respectively, due to the factors described above in the three month discussion.

Operating Income Before Amortization increased 48% to \$147.6 million, benefiting from the higher revenue noted above and a decrease of \$4.9 million in depreciation, partially offset by increases of \$100.1 million in selling and marketing expense and \$76.6 million in traffic acquisition costs. The decrease in depreciation and the increases in selling and marketing expense and traffic acquisition costs are primarily due to the factors described above in the three month discussion.

Operating income increased 49% to \$147.6 million, principally due to the increase in Operating Income Before Amortization described above.

### *Match*

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

Revenue increased 53% to \$178.4 million benefiting from the contribution of \$52.7 million from 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, and growth within our Core operations. Core revenue increased 12% to \$109.5 million driven by a 10% increase in subscribers.

Operating Income Before Amortization increased 48% to \$62.6 million, primarily due to the acquisition of Meetic and higher Core revenue noted above. Operating Income Before Amortization, excluding Meetic, was impacted by increases in product development expense and selling and marketing expense. The increase in product development expense is primarily due to an increase in compensation and other employee-related costs. Selling and marketing expense increased from 2011 primarily due to

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an increase in offline marketing as certain television spend was shifted from the first quarter of 2012 to the second quarter of 2012.

Operating income increased 39% to \$57.1 million, primarily due to the increase in Operating Income Before Amortization described above, partially offset by increases of \$3.7 million in amortization of intangibles and \$0.6 million in non-cash compensation expense. The increase in amortization of intangibles is related to the Meetic acquisition, partially offset by certain intangible assets being fully amortized in 2011. The increase in non-cash compensation expense is related to the Meetic acquisition.

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

Revenue increased 55% to \$352.7 million benefiting from the contribution of Meetic as described above in the three month discussion and growth within our Core operations, partially offset by a decrease in Developing revenue. Core revenue increased 14% to \$218.3 million driven by an increase in subscribers. Revenue from Developing, which consists of OkCupid, Singlesnet, mobile-only products and Match's non-Meetic international operations, decreased 11% to \$33.1 million, despite strong growth from OkCupid, due to lower subscription revenue from Singlesnet. Meetic revenue of \$101.3 million was negatively impacted by the write-off of \$5.2 million of deferred revenue in connection with its acquisition. Excluding the results of Meetic, revenue grew 10% to \$251.4 million.

Operating Income Before Amortization increased 48% to \$100.0 million, primarily due to the higher Core revenue noted above and the acquisition of Meetic, which was negatively impacted by the write-off of \$5.2 million of deferred revenue described above. Operating Income Before Amortization, excluding Meetic, was impacted by increases in product development expense and general and administrative expense. Both product development expense and general and administrative expense increased from 2011, primarily due to increases in compensation and other employee-related costs. General and administrative expense was further impacted by a decrease in professional fees due, in part, to the inclusion in the prior year period of \$1.1 million in transaction fees associated with the Meetic acquisition.

Operating income increased 35% to \$87.0 million, primarily due to the increase in Operating Income Before Amortization described above, partially offset by increases of \$8.6 million in amortization of intangibles and \$1.5 million in non-cash compensation expense. The increases in amortization of intangibles and non-cash compensation expense are due to the factors described above in the three month discussion.

### **Local**

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

Our Local segment includes ServiceMagic and CityGrid Media.

Revenue increased 5% to \$84.5 million, reflecting growth from both ServiceMagic and CityGrid. ServiceMagic domestic revenue grew due to higher average lead acceptance fees. ServiceMagic International revenue grew primarily due to a 25% increase in service request accepts. A service request can be transmitted to more than one service professional and is deemed accepted upon transmission. CityGrid Media revenue increased due to higher revenue from resellers, partially offset by a decline in revenue from direct sales.

Operating Income Before Amortization increased 21% to \$11.8 million, growing at a faster rate than revenue primarily due to lower selling and marketing expense and cost of revenue as a percentage of revenue.

Operating income increased 25% to \$11.7 million, principally due to the increase in Operating Income Before Amortization described above.

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

Revenue increased 7% to \$161.6 million, reflecting growth from ServiceMagic's domestic and international operations. ServiceMagic domestic revenue grew due to higher average lead acceptance fees and a 4% increase in service request accepts. Service request accepts benefited from an increase in service requests, partially offset by lower accepts per service request. ServiceMagic International revenue grew due to higher average lead acceptance fees and an increase in service request accepts. CityGrid Media revenue increased modestly as the growth from resellers was partially offset by a decline from direct sales.

Operating Income Before Amortization decreased 2% to \$15.8 million, despite the higher revenue noted above, primarily due to increases in general and administrative expense, cost of revenue and selling and marketing expense.

Operating income increased 2% to \$15.5 million despite the decrease in Operating Income Before Amortization described above due to a decrease of \$0.6 million in amortization of intangibles.

### **Media**

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

Our Media segment includes Electus, CollegeHumor, Notional, Vimeo, DailyBurn and Newsweek Daily Beast.

Revenue increased 97% to \$38.4 million primarily due to Newsweek Daily Beast, consolidated beginning June 1, 2012 following our acquisition of a controlling interest, and increased revenue from Electus and Vimeo. Operating Income Before Amortization loss increased by \$3.5 million to a loss of \$6.8 million reflecting the inclusion of Newsweek Daily Beast and increased operating expenses at CollegeHumor. Operating loss increased by \$3.9 million to \$7.3 million, principally due to the increase in Operating Income Before Amortization loss described above and increases in amortization of intangibles and non-cash compensation expense.

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

Revenue increased 64% to \$54.3 million primarily due to the factors described above in the three month discussion. Operating Income Before Amortization loss and operating loss increased by \$5.5 million and \$6.3 million, respectively, to losses of \$13.2 million and \$14.0 million, respectively, due to the factors described above in the three month discussion.

### **Corporate**

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

Operating Income Before Amortization loss increased by \$1.3 million to a loss of \$16.3 million, primarily due to the inclusion in the prior year period of a non-income tax refund.

Operating loss decreased by \$2.2 million to \$35.9 million, despite the increase in Operating Income Before Amortization loss described above primarily due to a decrease of \$3.5 million in non-cash compensation expense. The decrease in non-cash compensation expense is primarily related to a charge in the prior year period related to a modification of certain awards and the reduction in expense in the current year period related to the reassessment of the probability of the vesting of certain performance-based awards.

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

Operating Income Before Amortization loss increased by \$1.8 million to a loss of \$32.0 million and operating loss decreased by \$1.4 million to a loss of \$71.9 million, primarily due to the factors described above in the three month discussion. Non-cash compensation expense was further impacted by awards becoming fully vested, partially offset by equity grants issued subsequent to the second quarter of 2011.

**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 2012, the Company had \$807.2 million of cash and cash equivalents, \$138.6 million of marketable securities, and \$95.8 million of long-term debt, including current maturities of \$15.8 million. Domestically, cash equivalents primarily consist of AAA rated treasury and government agency money market funds and commercial paper rated A2/P2 or better. Internationally, cash equivalents primarily consist of AAA prime and government money market funds and time deposits. Marketable securities primarily consist of short-to-intermediate-term debt securities issued by states of the U.S. and subdivisions thereof and investment grade corporate issuers. The Company only invests in marketable securities with active secondary or resale markets to ensure portfolio liquidity and the ability to readily convert investments into cash to fund current operations or satisfy other cash requirements as needed. From time to time, the Company may invest in marketable equity securities as part of its investment strategy. Long-term debt, including current maturities, is comprised of \$15.8 million in Senior Notes due January 15, 2013 and \$80.0 million in Liberty Bonds due September 1, 2035.

At June 30, 2012, \$203.9 million of the \$807.2 million of cash and cash equivalents and none of the \$138.6 million of marketable securities were held by the Company's foreign subsidiaries. No U.S. federal or state income taxes have been provided on the permanently reinvested earnings of any of the Company's foreign subsidiaries that hold this cash and cash equivalents. If needed for our operations in the U.S., most of the cash and cash equivalents held by the Company's foreign subsidiaries could be repatriated to the U.S., but under current law, would be subject to U.S. federal and state income taxes. However, the Company's intent is to permanently reinvest these funds outside of the U.S. and, currently, the Company does not anticipate a need to repatriate them to fund our U.S. operations.

In summary, the Company's cash flows attributable to continuing operations are as follows:

|                                           | <b>Six Months Ended</b> |             |
|-------------------------------------------|-------------------------|-------------|
|                                           | <b>June 30,</b>         |             |
|                                           | <b>2012</b>             | <b>2011</b> |
|                                           | <b>(In thousands)</b>   |             |
| Net cash provided by operating activities | \$ 205,527              | \$ 157,160  |
| Net cash used in investing activities     | (32,338)                | (189,750)   |
| Net cash used in financing activities     | (67,740)                | (85,313)    |

Net cash provided by operating activities attributable to continuing operations consists of earnings or loss from continuing operations adjusted for non-cash items, including non-cash compensation expense, depreciation, amortization of intangibles, deferred income taxes, asset impairment charges, equity in income or losses of unconsolidated affiliates and gains or losses on the sales of investments, and the effect of changes in working capital activities. Net cash provided by operating activities attributable to continuing operations in 2012 was \$205.5 million and consists of earnings from continuing operations of \$79.3 million, adjustments for non-cash items of \$111.5 million and cash provided by working capital activities of \$14.8 million. Adjustments for non-cash items primarily consists of \$41.9 million of non-cash compensation expense, \$24.9 million of equity in losses of unconsolidated affiliates, which includes a non-cash charge of \$18.6 million to re-measure the carrying value of our investment in Newsweek Daily Beast to fair value, \$24.3 million of depreciation and \$12.8 million of amortization of intangibles. The increase in cash from changes in working capital activities primarily consists of an increase in income taxes payable of \$30.4 million and an increase in deferred revenue of \$8.7 million, partially offset by an increase of \$19.4 million in accounts receivable and an increase of \$7.9 million in other current assets. The increase in income taxes payable is due to current year income tax accruals in excess of current year income tax payments. The increase in deferred revenue is primarily due to the growth in subscription revenue at Match, which includes an increase of \$5.2 million in deferred revenue at Meetic. The increase in accounts receivable is primarily due to the growth in revenue at Search & Applications earned from our paid listing supply agreement

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with Google; the related receivable from Google was \$117.9 million and \$105.7 million at June 30, 2012 and December 31, 2011, respectively. While our Match and ServiceMagic businesses experienced growth, the accounts receivable at these businesses are principally credit card receivables and, accordingly, are not significant in relation to the revenue of these businesses. The increase in other current assets is primarily related to the increase in short-term production costs at certain of our Media businesses that are capitalized as the television program, video or film is being produced.

Net cash used in investing activities attributable to continuing operations in 2012 of \$32.3 million includes cash consideration used in acquisitions and investments of \$26.7 million primarily related to the payment of contingent consideration associated with the 2011 acquisition of OkCupid and the June 2012 acquisition of nRelate, and capital expenditures of \$20.4 million primarily related to the internal development of software to support our products and services, partially offset by net maturities and sales of marketable debt securities and sales of long-term investments of \$27.3 million.

Net cash used in financing activities attributable to continuing operations in 2012 of \$67.7 million includes \$359.2 million for the repurchase of 7.8 million shares of common stock at an average price of \$46.25 per share and \$21.7 million related to the payment of cash dividends to IAC shareholders, partially offset by proceeds related to the issuance of common stock, net of withholding taxes of \$301.7 million and excess tax benefits from stock-based awards of \$14.4 million. Included in the proceeds related to the issuance of common stock are proceeds of \$284.1 million from the exercise of warrants to acquire 11.7 million shares of IAC common stock, some of which were exercised on a cashless or net basis. The weighted average strike price of the warrants was \$28.40 per share.

Net cash provided by operating activities attributable to continuing operations in 2011 was \$157.2 million and consists of earnings from continuing operations of \$65.8 million, adjustments for non-cash items of \$104.4 million and cash used in working capital activities of \$13.1 million. Adjustments for non-cash items primarily consists of \$43.2 million of non-cash compensation expense, \$25.9 million of depreciation, \$14.1 million of deferred income taxes and \$10.6 million of equity in losses of unconsolidated affiliates. The deferred income tax provision primarily relates to the vesting of restricted stock units and the exercise of stock options. The decrease in cash from changes in working capital activities primarily consists of an increase of \$10.2 million in accounts receivable, a decrease of \$8.1 million in income taxes payable and a decrease of \$6.3 million in accounts payable and other current liabilities, partially offset by an increase of \$11.9 million in deferred revenue. The increase in accounts receivable is primarily due to the growth in revenue at Search & Applications earned from our paid listing supply agreement with Google; the related receivable from Google was \$75.3 million at June 30, 2011 and \$70.5 million at December 31, 2010. The decrease in income taxes payable is primarily due to a reduction in state tax accruals resulting from income tax provision to tax return reconciliations and the expirations of statutes of limitations, partially offset by current year income tax accruals in excess of current year income tax payments. The decrease in accounts payable and other current liabilities is primarily due to a decrease in accrued employee compensation and benefits and a decrease in amounts payable to suppliers at our Shoebuy business, partially offset by an increase in accrued revenue share expense. The decrease in accrued employee compensation and benefits is due to the payment of a portion of the 2010 discretionary cash bonuses in 2011. The decrease in amounts payable to suppliers is due to the seasonal nature of Shoebuy's business. The increase in accrued revenue share expense is primarily due to an increase in traffic acquisition costs at Search & Applications. The increase in deferred revenue is primarily due to the growth in subscription revenue at Match, as well as growth at our Media businesses.

Net cash used in investing activities attributable to continuing operations in 2011 of \$189.7 million includes \$360.6 million of funds that were held in escrow for the Meetic tender offer, cash consideration used in acquisitions and investments of \$81.6 million primarily related to the acquisition of OkCupid and capital expenditures of \$19.3 million primarily related to the internal development of

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software to support our products and services, partially offset by the net maturities and sales of marketable debt securities and sales of long-term investments of \$278.9 million.

Net cash used in financing activities attributable to continuing operations in 2011 of \$85.3 million includes \$155.2 million for the repurchase of 4.8 million shares of common stock at an average price of \$35.97 per share, partially offset by proceeds related to the issuance of common stock, net of withholding taxes, of \$52.0 million and excess tax benefits from stock-based awards of \$17.9 million.

The Company's principal sources of liquidity are its cash and cash equivalents and marketable securities as well as its cash flows generated from operations. The Company currently does not have in place any formal arrangements that would provide it with external sources of financing such as a revolving credit or other similar facility.

The Company anticipates that it will need to make capital and other expenditures in connection with the development and expansion of its operations. The Company expects that 2012 capital expenditures will be higher than 2011. On May 1, 2012, IAC's Board of Directors authorized the Company to repurchase an additional 10 million shares of common stock. At June 30, 2012, IAC had 10.8 million shares remaining in its share repurchase authorization. IAC may purchase shares over an indefinite period of time on the open market and in privately negotiated transactions, depending on those factors IAC management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook. IAC increased its quarterly cash dividend to \$0.24 per share of common and Class B common stock outstanding; the dividend is payable on September 1, 2012 to stockholders of record on August 15, 2012. Future declarations of dividends are subject to the determination of IAC's Board of Directors.

The Company believes its existing cash, cash equivalents and marketable securities, together with its expected positive cash flows generated from operations in 2012 will be sufficient to fund its normal operating requirements, including capital expenditures, share repurchases, quarterly cash dividends, and investing and other commitments for the foreseeable future. Our liquidity could be negatively affected by a decrease in demand for our products and services. The Company may make acquisitions and investments that could reduce its cash, cash equivalents and marketable securities balances and as a result, the Company may need to raise additional capital through future debt or equity financing to provide for greater financial flexibility. Additional financing may not be available at all or on terms favorable to us.

**CONTRACTUAL OBLIGATIONS**

| Contractual Obligations(a)                      | Payments Due by Period |                     |           |           |                      |
|-------------------------------------------------|------------------------|---------------------|-----------|-----------|----------------------|
|                                                 | Total                  | Less Than<br>1 Year | 1-3 Years | 3-5 Years | More Than<br>5 Years |
|                                                 | (In thousands)         |                     |           |           |                      |
| Long-term debt, including current maturities(b) | \$ 190,953             | \$ 20,953           | \$ 8,000  | \$ 8,000  | \$ 154,000           |
| Purchase obligations(c)                         | 47,511                 | 17,610              | 29,901    |           |                      |
| Operating leases                                | 269,425                | 21,474              | 31,697    | 25,683    | 190,571              |
| Total contractual cash obligations              | \$ 507,889             | \$ 60,037           | \$ 69,598 | \$ 33,683 | \$ 344,571           |

- 
- (a) The Company has excluded \$311.5 million in unrecognized tax benefits and related interest from the table above as we are unable to make a reasonably reliable estimate of the period in which these liabilities might be paid. For additional information on income taxes, see Note 2 to the consolidated financial statements.
- (b) Represents contractual amounts due, including interest.
- (c) The purchase obligations primarily include advertising commitments, which commitments are reducible or terminable such that these commitments can never exceed associated revenue by a meaningful amount. Purchase obligations also include minimum payments due under telecommunication contracts related to data transmission lines.

## IAC'S PRINCIPLES OF FINANCIAL REPORTING

IAC reports Operating Income Before Amortization as a supplemental measure to generally accepted accounting principles ("GAAP"). This measure is one of the primary metrics by which we evaluate the performance of our businesses, on which our internal budgets are based and by which management is compensated. We believe that investors should have access to, and we are obligated to provide, the same set of tools that we use in analyzing our results. This non-GAAP measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. 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, and (4) 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.

### 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 reportable segment for the three and six months ended June 30, 2012 and 2011, see Note 8 to the consolidated financial statements.

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

At June 30, 2012, there have been no material changes to the Company's instruments or positions that are sensitive to market risk since the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2011.

**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"), IAC management, including the Chairman and Senior Executive, the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as defined by Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, the Chairman and Senior Executive, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report 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 IAC 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 IAC management's current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, among others: changes in senior management at IAC and/or its businesses, changes in our relationship with, or policies implemented by, Google, adverse changes in economic conditions, either generally or in any of the markets or industries in which IAC's businesses operate, adverse trends in the online advertising industry or the advertising industry generally, our ability to convert visitors to our various websites into users and customers, our ability to offer new or alternative products and services in a cost-effective manner and consumer acceptance of these products and services, changes in industry standards and technology, actual tax liabilities that differ materially from our estimates, operational and financial risks relating to acquisitions, our ability to expand successfully into international markets and regulatory changes. Certain of these and other risks and uncertainties are discussed in IAC's filings with the SEC, including in Part I "Item 1A. Risk Factors" of our annual report on Form 10-K for the fiscal year ended December 31, 2011. Other unknown or unpredictable factors that could also adversely affect IAC's business, financial condition and operating results may arise from time to time. In light of these risks and uncertainties, the forward-looking statements discussed in this report may not prove to be accurate. Accordingly, you should not place undue reliance on these forward-looking statements, which only reflect the views of IAC management as of the date of this report. IAC does not undertake to update these forward-looking statements.

**Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I "Item 1A. Risk Factors" of our annual report on Form 10-K for the fiscal year ended December 31, 2011, which could materially affect our business, financial condition or future operating results. The risks described in this report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or future operating results.

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

The following table sets forth purchases by the Company of its common stock during the quarter ended June 30, 2012:

| <b>Period</b> | <b>(a)<br/>Total<br/>Number of Shares<br/>Purchased</b> | <b>(b)<br/>Average<br/>Price Paid<br/>Per Share(1)</b> | <b>(c)<br/>Total<br/>Number of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs(2)</b> | <b>(d)<br/>Maximum<br/>Number of<br/>Shares that<br/>May Yet Be<br/>Purchased<br/>Under Publicly<br/>Announced<br/>Plans or<br/>Programs(3)</b> |
|---------------|---------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| April 2012    | 2,007,762                                               | \$ 48.16                                               | 2,007,762                                                                                                                          | 1,669,589                                                                                                                                       |
| May 2012      | 171,913                                                 | \$ 49.44                                               | 171,913                                                                                                                            | 11,497,676                                                                                                                                      |
| June 2012     | 705,000                                                 | \$ 45.20                                               | 705,000                                                                                                                            | 10,792,676                                                                                                                                      |
| <b>Total</b>  | <b>2,884,675</b>                                        | <b>\$ 47.53</b>                                        | <b>2,884,675</b>                                                                                                                   | <b>10,792,676</b>                                                                                                                               |

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

(2) Reflects repurchases made pursuant to a repurchase authorization previously announced in July 2011. Between July 1, 2012 and July 20, 2012, IAC repurchased an additional 1.3 million shares of IAC common stock pursuant to the July 2011 repurchase authorization and a repurchase authorization covering the repurchase of up to 10 million shares of IAC common stock previously announced on May 1, 2012.

(3) Represents the total number of shares of common stock that remained available for repurchase as of June 30, 2012 pursuant to the July 2011 and May 2012 repurchase authorizations. IAC may purchase shares pursuant to the May 2012 repurchase authorization over an indefinite period of time on the open market and in privately negotiated transactions, depending on those factors IAC management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

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**Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                             | <b>Location</b>                                                                                 |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| 3.1                   | Restated Certificate of Incorporation of IAC/InterActiveCorp.                                                                                                                                                                  | Exhibit 3.1 to the Registrant's Registration Statement on Form 8-A/A, filed on August 12, 2005. |
| 3.2                   | Certificate of Amendment of the Restated Certificate of Incorporation of IAC/InterActiveCorp.                                                                                                                                  | Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 22, 2008.           |
| 3.3                   | Amended and Restated By-Laws of IAC/InterActiveCorp.                                                                                                                                                                           | Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on December 6, 2010.          |
| 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                                                                                                                                                                                                                  |                                                                                                 |
| 101.SCH               | XBRL Taxonomy Extension Schema                                                                                                                                                                                                 |                                                                                                 |
| 101.CAL               | XBRL Taxonomy Extension Calculation                                                                                                                                                                                            |                                                                                                 |
| 101.DEF               | XBRL Taxonomy Extension Definition                                                                                                                                                                                             |                                                                                                 |
| 101.LAB               | XBRL Taxonomy Extension Labels                                                                                                                                                                                                 |                                                                                                 |

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| <b>Exhibit<br/>Number</b> | <b>Description</b>                   | <b>Location</b> |
|---------------------------|--------------------------------------|-----------------|
| 101.PRE                   | XBRL Taxonomy Extension Presentation |                 |

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- (1) Filed herewith.
- (2) Furnished herewith.





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PART I FINANCIAL INFORMATION

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IAC/INTERACTIVECORP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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