IAC/INTERACTIVECORP
Form 10-Q/A
February 01, 2012

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As filed with the Securities and Exchange Commission on February 1, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

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

For the Quarterly Period Ended June 30, 2011

Or

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

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

IAC/INTERACTIVECORP

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

Common Stock	79,174,454
Class B Common Stock	5,789,499
Total outstanding Common Stock	84,963,953

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of July 22, 2011 was $2,985,357,951. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

EXPLANATORY NOTE

The Registrant hereby amends in its entirety Item 1. Consolidated Financial Statements and Item 4. Controls and Procedures contained in IAC/InterActiveCorp's (the "Company") Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 (the "Original Form 10-Q"), as described below. On January 27, 2012, management and the Audit Committee (the "Committee") of the Board of Directors of the Company concluded that an error existed in the Company's previously issued financial statements relating to accounting for a deferred income tax liability that requires correction. During 2011, the Company undertook an analysis of the tax basis of certain businesses in connection with a review of its organizational structure. As a result of this review, the Company determined that the original deferred income tax provision recorded in 2002 in connection with a series of transactions, which included the exchange of certain of the Company's media businesses for certain other assets, was incorrectly calculated and incorrectly allocated to a former subsidiary. The correction of these errors as of June 30, 2011 and December 31, 2010 increased non-current deferred income tax liabilities and reduced shareholders' equity by $380.9 million. There is also a reclassification of non-current deferred income tax assets of $79.4 million and $110.5 million as of June 30, 2011 and December 31, 2010, respectively, which is required because non-current deferred income tax assets and liabilities of the same tax jurisdiction must be presented on the consolidated balance sheet on a net basis. Correcting these errors has no impact on the Company's consolidated statement of operations or consolidated statement of cash flows.

This Amendment reflects the changes described above. No other information included in the Original Form 10-Q has been amended by this Form 10-Q/A to reflect any information or events subsequent to the filing of the Original Form 10-Q.

PART I
FINANCIAL INFORMATION

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	June 30, 2011 (unaudited) (As Restated)	December 31, 2010 (audited) (As Restated)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 622,866	$ 742,099
Marketable securities	288,997	563,997
Accounts receivable, net of allowance of $8,375 and $8,848, respectively	126,887	119,581
Other current assets	110,341	118,308
Total current assets	1,149,091	1,543,985
Funds held in escrow for Meetic tender offer	360,583	
Property and equipment, net	261,118	267,928
Goodwill	1,077,476	989,493
Intangible assets, net	245,822	245,044
Long-term investments	255,909	200,721
Other non-current assets	79,863	81,908
TOTAL ASSETS	$ 3,429,862	$ 3,329,079
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable, trade	$ 47,252	$ 56,375
Deferred revenue	90,412	78,175
Accrued expenses and other current liabilities	267,828	222,323
Total current liabilities	405,492	356,873
Long-term debt	95,844	95,844
Income taxes payable	460,138	475,685
Deferred income taxes	301,567	270,501
Other long-term liabilities	19,569	20,239
Redeemable noncontrolling interests	56,482	59,869
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Common stock $.001 par value; authorized 1,600,000,000 shares; issued 229,718,224 and 225,873,751 shares, respectively, and outstanding 81,518,917 and 84,078,621 shares, respectively	230	226
Class B convertible common stock $.001 par value; authorized 400,000,000 shares; issued 16,157,499 shares and outstanding 5,789,499 and 4,289,499 shares, respectively	16	16
Additional paid-in capital	11,159,083	11,047,884
Accumulated deficit	(591,524)	(652,018)
Accumulated other comprehensive income	62,224	17,546
Treasury stock 158,567,307 and 153,663,130 shares, respectively	(8,539,259)	(8,363,586)
Total shareholders' equity	2,090,770	2,050,068
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,429,862	$ 3,329,079

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Revenue	$ 485,404	$ 394,244	$ 945,617	$ 772,422
Costs and expenses:				
Cost of revenue (exclusive of depreciation shown separately below)	181,472	140,638	354,190	271,787
Selling and marketing expense	133,218	118,306	273,468	248,687
General and administrative expense	80,553	74,917	156,844	148,881
Product development expense	17,280	14,369	35,002	29,161
Depreciation	12,450	16,625	25,889	32,418
Amortization of intangibles	2,200	4,756	4,657	7,930
Total costs and expenses	427,173	369,611	850,050	738,864
Operating income	58,231	24,633	95,567	33,558
Equity in losses of unconsolidated affiliates	(8,720)	(4,002)	(10,599)	(26,615)
Other income, net	5,637	103	6,389	5,339
Earnings from continuing operations before income taxes	55,148	20,734	91,357	12,282
Income tax provision	(9,518)	(5,313)	(25,559)	(11,458)
Earnings from continuing operations	45,630	15,421	65,798	824
Loss from discontinued operations, net of tax	(2,488)	(2,586)	(4,436)	(7,313)
Net earnings (loss)	43,142	12,835	61,362	(6,489)
Net (earnings) loss attributable to noncontrolling interests	(718)	756	(868)	1,375
Net earnings (loss) attributable to IAC shareholders	$ 42,424	$ 13,591	$ 60,494	$ (5,114)
Per share information attributable to IAC shareholders:				
Basic earnings per share from continuing operations	$ 0.50	$ 0.15	$ 0.72	$ 0.02
Diluted earnings per share from continuing operations	$ 0.46	$ 0.14	$ 0.68	$ 0.02
Basic earnings (loss) per share	$ 0.47	$ 0.12	$ 0.68	$ (0.05)
Diluted earnings (loss) per share	$ 0.44	$ 0.12	$ 0.63	$ (0.04)
Non-cash compensation expense by function:				
Cost of revenue	$ 1,151	$ 1,011	$ 2,233	$ 1,952
Selling and marketing expense	1,200	971	2,235	1,954
General and administrative expense	18,926	17,676	35,326	35,819
Product development expense	1,730	1,390	3,374	2,868
Total non-cash compensation expense	$ 23,007	$ 21,048	$ 43,168	$ 42,593

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings (loss)	$ 61,362	$ (6,489)
Less: loss from discontinued operations, net of tax	4,436	7,313
Earnings from continuing operations	65,798	824
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Depreciation	25,889	32,418
Amortization of intangibles	4,657	7,930
Non-cash compensation expense	43,168	42,593
Deferred income taxes	14,136	(5,812)
Equity in losses of unconsolidated affiliates	10,599	26,615
Gain on sales of investments	(1,544)	(3,989)
Changes in current assets and liabilities:		
Accounts receivable	(10,210)	(8,831)
Other current assets	(237)	2,548
Accounts payable and other current liabilities	(6,343)	(2,734)
Income taxes payable	(8,146)	24,678
Deferred revenue	11,878	9,048
Other, net	7,515	6,287
Net cash provided by operating activities attributable to continuing operations	157,160	131,575
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(79,968)	(16,681)
Capital expenditures	(19,349)	(23,513)
Proceeds from sales and maturities of marketable debt securities	402,096	366,543
Purchases of marketable debt securities	(135,021)	(427,286)
Proceeds from sales of investments	11,808	5,325
Purchases of long-term investments	(1,604)	(796)
Funds transferred to escrow for Meetic tender offer	(360,585)	
Dividend received from Meetic, an equity method investee		8,800
Other, net	(7,127)	(127)
Net cash used in investing activities attributable to continuing operations	(189,750)	(87,735)
Cash flows from financing activities attributable to continuing operations:		
Purchase of treasury stock	(155,241)	(379,508)
Issuance of common stock, net of withholding taxes	52,043	6,592
Excess tax benefits from stock-based awards	17,865	4,992
Other, net	20	5
Net cash used in financing activities attributable to continuing operations	(85,313)	(367,919)
Total cash used in continuing operations	(117,903)	(324,079)
Total cash used in discontinued operations	(2,913)	(2,517)
Effect of exchange rate changes on cash and cash equivalents	1,583	(4,232)

Net decrease in cash and cash equivalents	(119,233)	(330,828)
Cash and cash equivalents at beginning of period	742,099	1,245,997
Cash and cash equivalents at end of period	$ 622,866	$ 915,169

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

Basis of Presentation

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

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

The accompanying unaudited consolidated statements of operations for the three and six months ended June 30, 2010 and cash flows for the six months ended June 30, 2010 have been reclassified to present Evite, Gifts.com, IAC Advertising Solutions and InstantAction, all of which were previously reported in IAC's Media & Other segment, as discontinued operations. In addition, certain other prior year amounts have been reclassified to conform to the current year presentation.

Accounting Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. Actual amounts could differ materially from these estimates. On an ongoing basis, the Company evaluates its estimates and judgments including those related to the fair values of marketable securities and other investments, goodwill and indefinite-lived intangible assets, the useful lives of definite-lived intangible assets and property and equipment, the carrying value of accounts receivable, including the determination of the allowance for doubtful accounts and other revenue related allowances, the reserves for income tax contingencies and the valuation allowances for deferred income tax assets and the fair value of stock-based awards, among others. The Company bases its estimates and judgments on historical experience, its forecasts and budgets and other factors that the Company considers relevant.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Restatement of Previously Issued Consolidated Financial Statements

We have restated our consolidated financial statements as described in Note 14 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS.

Certain Risks and Concentrations

A substantial portion of the Company's revenue is attributable to online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or changes in customer buying behavior or advertiser spending behavior could adversely affect our operating results. A significant majority of the Company's online advertising revenue is attributable to a paid listing supply agreement with Google Inc. ("Google"), which expires on March 31, 2016. For the three and six months ended June 30, 2011, revenue earned from Google was $221.3 million and $436.2 million, respectively. For the three and six months ended June 30, 2010, revenue earned from Google was $174.1 million and $345.7 million, respectively. The majority of this revenue was earned by the businesses comprising the Search segment. Accounts receivable related to revenue earned from Google totaled $75.3 million at June 30, 2011 and $70.5 million at December 31, 2010.

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS

Property and equipment, net

	June 30, 2011	December 31, 2010
	(In thousands)	
Buildings and leasehold improvements	$ 234,606	$ 234,328
Computer equipment and capitalized software	191,260	183,055
Furniture and other equipment	41,568	41,930
Projects in progress	6,116	2,944
Land	5,117	5,117
	478,667	467,374
Less: accumulated depreciation and amortization	(217,549)	(199,446)
Property and equipment, net	$ 261,118	$ 267,928

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS (Continued)

Redeemable noncontrolling interests

	June 30, 2011	December 31, 2010
	(In thousands)	
Balance at January 1	$ 59,869	$ 28,180
Purchase of non-controlling interests	(5,652)	
Noncontrolling interests related to acquisitions		23,583
Noncontrolling interest created by a decrease in the ownership of a subsidiary		15,750
Contribution from owners of noncontrolling interests	80	79
Net earnings (loss) attributable to noncontrolling interests	868	(5,007)
Change in fair value of redeemable noncontrolling interests	1,389	(2,059)
Change in foreign currency translation adjustment	126	(267)
Other	(198)	(390)
Balance at end of period	$ 56,482	$ 59,869

Accumulated other comprehensive income

	June 30, 2011	December 31, 2010
	(In thousands)	
Foreign currency translation adjustment, net of tax	$ 25,889	$ 16,027
Unrealized gains on available-for-sale securities, net of tax	36,335	1,519
Accumulated other comprehensive income, net of tax	$ 62,224	$ 17,546

Other income (expense), net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Interest income	$ 1,150	$ 1,666	$ 2,452	$ 3,301
Interest expense	(1,355)	(1,323)	(2,710)	(2,646)
Gain on sales of investments	698		1,544	3,989
Non-income tax refunds related to Match Europe, which was sold in 2009	4,630		4,630	
Other	514	(240)	473	695
Other income, net	$ 5,637	$ 103	$ 6,389	$ 5,339

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS (Continued)

Comprehensive income (loss)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Net earnings (loss) attributable to IAC shareholders	$ 42,424	$ 13,591	$ 60,494	$ (5,114)
Change in foreign currency translation adjustment, net of tax	8,934	(8,990)	9,862	(13,663)
Change in net unrealized gains (losses) on available-for-sale securities, net of tax	32,447	(2,533)	34,816	(7,742)
Other comprehensive income (loss)	41,381	(11,523)	44,678	(21,405)
Comprehensive income (loss)	$ 83,805	$ 2,068	$ 105,172	$ (26,519)

The specific-identification method is used to determine the cost of securities sold and the amount of unrealized gains and losses reclassified out of accumulated other comprehensive income into earnings. The amount of unrealized gains, net of tax, reclassified out of accumulated other comprehensive income into earnings related to the sales and maturities of available-for-sale securities for the three and six months ended June 30, 2011 were $1.3 million and $1.4 million, respectively. The amount of unrealized gains, net of tax, reclassified out of accumulated other comprehensive income into earnings related to the sales and maturities of available-for-sale securities for the three and six months ended June 30, 2010 were less than $0.1 million and $2.7 million, respectively.

NOTE 3 INCOME TAXES

At the end of each interim period, the Company makes its best estimate of the annual expected effective tax rate and applies that rate to its ordinary year-to-date earnings or loss. The income tax provision or benefit related to significant, unusual, or extraordinary items, if applicable, that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates, tax status, or judgment on the realizability of a beginning-of-the-year deferred tax asset in future years is recognized in the interim period in which the change occurs.

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected pre-tax income (or loss) for the year, projections of the proportion of income (and/or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of the realizability of deferred tax assets generated in the current year. The accounting estimates used to compute the provision or benefit for income taxes may change as new events occur, more experience is acquired, additional information is obtained or our tax environment changes. To the extent that the expected annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in income tax provision for the quarter in which the change occurs. Included in the income tax provision for the three months ended June 30, 2011 is a benefit of $0.7 million due to a 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, 2011, the Company recorded an income tax provision for continuing operations of $9.5 million and $25.6 million, respectively, which represent effective tax

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (Continued)

rates of 17% and 28%, respectively. The tax 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.

For the three and six months ended June 30, 2010, the Company recorded an income tax provision for continuing operations of $5.3 million and $11.5 million, respectively, which represent effective tax rates of 26% and 93%, respectively. The tax rate for the three months ended June 30, 2010 is lower than the federal statutory rate of 35% due principally to foreign tax credits, partially offset by interest on tax contingencies and state taxes. The tax rate for the six months ended June 30, 2010 is higher than the federal statutory rate of 35% due principally to a valuation allowance on the deferred tax asset created by the impairment charge for our investment in The HealthCentral Network, Inc. ("HealthCentral"), interest on tax contingencies and state taxes, partially offset by foreign tax credits.

At June 30, 2011 and December 31, 2010, unrecognized tax benefits, including interest, are $473.3 million and $487.6 million, respectively. Of the total unrecognized tax benefits at June 30, 2011, $460.1 million is included in "non-current income taxes payable," $12.3 million relates to deferred tax assets included in "other non-current assets" and $0.8 million is included in "accrued expenses and other current liabilities." Included in unrecognized tax benefits at June 30, 2011 is $94.9 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, 2011 are subsequently recognized, $95.1 million and $210.7 million, net of related deferred tax assets and interest, would reduce income tax provision for continuing operations and discontinued operations, respectively. In addition, a continuing operations income tax provision of $4.3 million would be required upon the subsequent recognition of unrecognized tax benefits for an increase in the Company's valuation allowance against certain deferred tax assets.

The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax provision. Included in income tax provision for continuing operations and discontinued operations for the three months ended June 30, 2011 is a $1.5 million benefit and a $1.9 million expense, respectively, net of related deferred taxes of $1.0 million and $1.2 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, 2011 is a $0.6 million expense and a $3.3 million expense, respectively, net of related deferred taxes of $0.4 million and $2.1 million, respectively, for interest on unrecognized tax benefits. At June 30, 2011 and December 31, 2010, the Company has accrued $104.2 million and $97.7 million, respectively, for the payment of interest. At June 30, 2011 and December 31, 2010, the Company has accrued $4.5 million and $5.0 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 completed its review of the Company's tax returns for the years ended December 31, 2001 through 2006. The settlement has not yet been submitted to the Joint Committee of Taxation for approval. The IRS began its review 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 2007 has currently been extended to December 31, 2012. Various state and local jurisdictions are currently under

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (Continued)

examination, the most significant of which are California, New York and New York City for various tax years beginning with 2003. Income taxes payable include reserves considered sufficient to pay assessments that may result from examination of prior year tax returns. Changes to reserves from period to period and differences between amounts paid, if any, upon resolution of issues raised in audits and amounts previously provided may be material. Differences between the reserves for income tax contingencies and the amounts owed by the Company are recorded in the period they become known. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by $57.0 million within twelve months of the current reporting date, of which approximately $10.9 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 4 BUSINESS COMBINATION

On January 20, 2011, Match acquired OkCupid for $50.0 million in cash, plus potential additional consideration of up to $40.0 million that was contingent upon OkCupid's 2011 earnings performance. During the second quarter of 2011, the provisions of this contingent consideration arrangement were amended. Pursuant to the amendment, $30.0 million was paid to the former owners, and a potential additional payment of up to $10.0 million is contingent upon revised performance goals. The fair value of the contingent consideration at June 30, 2011 is $10.0 million and is included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheet. The Company estimated the fair value of the contingent consideration using its judgment of the likelihood of achieving the revised performance goals, which incorporates significant unobservable inputs.

NOTE 5 MARKETABLE SECURITIES

At June 30, 2011, available-for-sale marketable securities are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$ 116,492	$ 249	$ (9)	$ 116,732
States of the U.S. and state political subdivisions	112,593	589	(42)	113,140
U.S. Treasury securities	49,987	12		49,999
Total debt securities	279,072	850	(51)	279,871
Equity security	7,631	1,495		9,126
Total marketable securities	$ 286,703	$ 2,345	$ (51)	$ 288,997

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 MARKETABLE SECURITIES (Continued)

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

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

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

The contractual maturities of debt securities classified as available-for-sale at June 30, 2011 are as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 195,082	$ 195,443
Due after one year through five years	83,990	84,428
Total	$ 279,072	$ 279,871

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

	June 30, 2011		December 31, 2010	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 12,271	$ (9)	$ 34,552	$ (16)
States of the U.S. and state political subdivisions	6,764	(42)	39,171	(230)
Total	$ 19,035	$ (51)	$ 73,723	$ (246)

At June 30, 2011 and December 31, 2010, there are no investments in marketable securities that have been in a continuous unrealized loss position for twelve months or longer.

Substantially all of the Company's debt securities are rated investment grade. Because the Company does not intend to sell any marketable securities and it is not more likely than not that the Company will be required to sell any marketable securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider any of its marketable securities to be other-than-temporarily impaired at June 30, 2011.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 MARKETABLE SECURITIES (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Proceeds from sales and maturities of available-for-sale marketable securities	$ 215,139	$ 170,878	$ 413,904	$ 371,868
Gross realized gains	1,022	83	1,916	4,332
Gross realized losses		(7)	(18)	(7)

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

NOTE 6 FUNDS HELD IN ESCROW FOR MEETIC TENDER OFFER

On July 8, 2011, IAC launched its previously announced tender offer for the 73% of Meetic that it does not own at a price per share of €15.00. The initial phase of the tender offer will close on August 29, 2011 and the second phase of the tender offer will close on September 19, 2011. In connection with the tender offer, IAC was obligated to place sufficient funds in escrow to purchase 100% of the shares that it does not own or $360.6 million. These funds are classified as a non-current asset as their expected use is to acquire a non-current asset. At the conclusion of the tender process, any unused funds will be returned to IAC.

NOTE 7 FAIR VALUE MEASUREMENTS

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

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

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

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

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

	June 30, 2011			
	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
	(In thousands)			
Assets:				
Cash equivalents:				
Treasury and government agency money market funds	$ 332,878	$	$	$ 332,878
Commercial paper		100,635		100,635
Time deposits		20,650		20,650
Marketable securities:				
Corporate debt securities		116,732		116,732
States of the U.S. and state political subdivisions		113,140		113,140
U.S. Treasury securities	49,999			49,999
Equity security	9,126			9,126
Funds held in escrow for Meetic tender offer:				
Treasury and government agency money market funds	158,305			158,305
Commercial paper		202,278		202,278
Long-term investments:				
Auction rate security			8,680	8,680
Marketable equity security	80,961			80,961
Total	$ 631,269	$ 553,435	$ 8,680	$ 1,193,384
Liabilities:				
Contingent consideration arrangement	$	$	$ 10,000	$ 10,000
Total	$	$	$ 10,000	$ 10,000

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

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

The following 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,		
	2011		2010
	Auction Rate Security	Contingent Consideration Arrangement	Auction Rate Securities
	(In thousands)		
Balance at April 1	$ 9,050	$ 40,000	$ 13,420
Total net losses (realized and unrealized):			
Included in other comprehensive income	(370)		(2,165)
Settlements		(30,000)	
Balance at June 30	$ 8,680	$ 10,000	$ 11,255

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

	Six Months Ended June 30,		
	2011		2010
	Auction Rate Securities	Contingent Consideration Arrangement	Auction Rate Securities
		(In thousands)	
Balance at January 1	$ 13,100	$	$ 12,635
Total net gains (losses) (realized and unrealized):			
Included in other comprehensive income	580		(1,380)
Fair value at date of acquisition		40,000	
Settlements	(5,000)	(30,000)	
Balance at June 30	$ 8,680	$ 10,000	$ 11,255

There are no gains or losses included in earnings for the three and six months ended June 30, 2011 and 2010, relating to the Company's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs.

Auction rate securities

The Company's auction rate securities ("ARS") are valued by discounting the estimated future cash flow streams of the securities over the lives of the securities. Credit spreads and other risk factors are also considered in establishing fair value. During the first quarter of 2011, one of the ARS was redeemed at its par value of $5.0 million. The cost basis of ARS is $10.0 million and $15.0 million at June 30, 2011 and December 31, 2010, respectively, with gross unrealized losses of $1.3 million and $1.9 million at June 30, 2011 and December 31, 2010, respectively. The unrealized losses are included in "Accumulated other comprehensive income" in the accompanying consolidated balance sheet. At June 30, 2011, the remaining auction rate security is rated A/WR and matures in 2035. Due to its high credit rating and because the Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell this security before recovery of its amortized cost basis, which may be maturity, the Company does not consider the auction rate security to be other-than-temporarily impaired at June 30, 2011.

Contingent consideration arrangement

See Note 4 for information regarding the contingent consideration arrangement.

Assets measured at fair value on a nonrecurring basis

The Company's non-financial assets, such as goodwill, intangible assets and property and equipment, as well as equity and cost method investments, are measured at fair value only when an impairment charge is recognized. Such fair value measurements are based predominantly on Level 3 inputs.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

During the first quarter of 2010, the Company recorded an $18.3 million impairment charge to write-down its investment in HealthCentral to fair value. The decline in value was determined to be other-than-temporary due to HealthCentral's continued losses and negative operating cash flows. The Company estimated the fair value of its investment in HealthCentral using a multiple of revenue approach. The impairment charge is included within "Equity in losses of unconsolidated affiliates" in the accompanying consolidated statement of operations.

NOTE 8 FINANCIAL INSTRUMENTS

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

	June 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Cash and cash equivalents	$ 622,866	$ 622,866	$ 742,099	$ 742,099
Marketable securities	288,997	288,997	563,997	563,997
Funds held in escrow for Meetic tender offer	360,583	360,583		
Auction rate securities	8,680	8,680	13,100	13,100
Long-term marketable equity security	80,961	80,961		
Notes receivable	3,615	2,849	3,316	2,818
Contingent consideration arrangement	(10,000)	(10,000)		
Long-term debt	(95,844)	(88,640)	(95,844)	(83,363)
Guarantee of The Newsweek/Daily Beast Company debt	(5,000)	(5,000)		
Letters of credit and surety bond	N/A	(232)	N/A	(362)

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

The Company has guaranteed $5.0 million of The Newsweek/Daily Beast Company's $10.0 million line of credit. At June 30, 2011, $10.0 million had been drawn on this line of credit. The carrying value and fair value of this guarantee represents the amount the Company expects to pay to settle this obligation.

At June 30, 2011 and December 31, 2010, the carrying values of the Company's investments accounted for under the cost method totaled $6.9 million and $39.0 million, respectively, and are included in "Long-term investments" in the accompanying consolidated balance sheet. IAC's investment in The Active Network, Inc., which was previously accounted for under the cost method, became an investment measured at fair value during the second quarter of 2011. The cost basis of this long-term

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 FINANCIAL INSTRUMENTS (Continued)

marketable equity security was $33.4 million at June 30, 2011, with a gross unrealized gain of $47.5 million included in "Accumulated other comprehensive income" in the accompanying consolidated balance sheet. The Company evaluates each cost method investment for impairment on a quarterly basis and recognizes an impairment loss if a decline in value is determined to be other-than-temporary. 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.

NOTE 9 EARNINGS (LOSS) PER SHARE

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

	Three Months Ended June 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Earnings from continuing operations	$ 45,630	$ 45,630	$ 15,421	$ 15,421
Net (earnings) loss attributable to noncontrolling interests	(718)	(718)	756	756
Earnings from continuing operations attributable to IAC shareholders	44,912	44,912	16,177	16,177
Loss from discontinued operations, net of tax	(2,488)	(2,488)	(2,586)	(2,586)
Net earnings attributable to IAC shareholders	$ 42,424	$ 42,424	$ 13,591	$ 13,591
Denominator:				
Weighted average basic shares outstanding	90,050	90,050	109,287	109,287
Dilutive securities including stock options, warrants and RSUs(a)(b)		7,252		3,320
Denominator for earnings per share weighted average shares(a)(b)	90,050	97,302	109,287	112,607
Earnings (loss) per share attributable to IAC shareholders:				
Earnings per share from continuing operations	$ 0.50	$ 0.46	$ 0.15	$ 0.14
Discontinued operations, net of tax	(0.03)	(0.02)	(0.03)	(0.02)
Earnings per share	$ 0.47	$ 0.44	$ 0.12	$ 0.12

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 EARNINGS (LOSS) PER SHARE (Continued)

	Six Months Ended June 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Earnings from continuing operations	$ 65,798	$ 65,798	$ 824	$ 824
Net (earnings) loss attributable to noncontrolling interests	(868)	(868)	1,375	1,375
Earnings from continuing operations attributable to IAC shareholders	64,930	64,930	2,199	2,199
Loss from discontinued operations, net of tax	(4,436)	(4,436)	(7,313)	(7,313)
Net earnings (loss) attributable to IAC shareholders	$ 60,494	$ 60,494	$ (5,114)	$ (5,114)
Denominator:				
Weighted average basic shares outstanding	89,568	89,568	112,847	112,847
Dilutive securities including stock options, warrants and RSUs(a)(b)		5,923		3,394
Denominator for earnings per share weighted average shares(a)(b)				