

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2005

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

IAC/INTERACTIVE CORP

(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.)

152 West 57th Street, New York, New York 10019
(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

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

As of July 25, 2005, the following shares of the Registrant's common stock were outstanding:

Common Stock, including 201,200 shares of restricted stock	618,039,225
Class B Common Stock	51,199,996
Total outstanding Common Stock	669,239,221

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of July 25, 2005 was \$14,147,697,504. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant are assumed to be affiliates of the Registrant.

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

IAC/INTERACTIVECORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			
Service revenue	\$ 1,160,649	\$ 919,312	\$ 2,177,151	\$ 1,764,470
Product sales	799,567	543,988	1,426,269	1,131,320
Net revenue	1,960,216	1,463,300	3,603,420	2,895,790
Cost of sales—service revenue	418,434	331,356	783,638	656,388
Cost of sales—product sales	486,989	336,238	869,817	701,506
Gross profit	1,054,793	795,706	1,949,965	1,537,896
Selling and marketing expense	423,092	295,649	760,674	599,415
General and administrative expense	234,947	171,041	447,842	336,250
Other operating expense	27,606	21,063	54,931	41,141
Amortization of cable distribution fees	17,054	17,811	33,781	35,033
Amortization of non-cash distribution and marketing expense	3,485	4,733	3,917	11,072
Amortization of non-cash compensation expense	59,382	55,342	109,910	124,310
Amortization of intangibles	72,828	78,511	147,204	156,808
Depreciation expense	43,848	42,286	87,991	83,914
Operating income	172,551	109,270	303,715	149,953
Other income (expense):				
Interest income	45,741	48,126	99,750	93,334
Interest expense	(18,946)	(19,457)	(40,609)	(38,850)
Gain on sale of VUE	523,487	—	523,487	—
Equity in income of VUE	43,126	11,038	21,960	10,686
Equity in income of unconsolidated affiliates and other	19,080	5,195	24,000	12,370
Total other income, net	612,488	44,902	628,588	77,540
Earnings from continuing operations before income taxes and minority interest	785,039	154,172	932,303	227,493
Income tax expense	(304,327)	(59,417)	(376,039)	(88,241)
Minority interest in income of consolidated subsidiaries	(1,469)	(974)	(1,820)	(1,485)
Earnings from continuing operations	479,243	93,781	554,444	137,767
Gain on sale of Euvía, net of tax	79,648	—	79,648	—
Income (loss) from discontinued operations, net of tax	62,492	(20,585)	59,502	(23,044)
Earnings before preferred dividends	621,383	73,196	693,594	114,723
Preferred dividends	(3,263)	(3,262)	(6,526)	(6,526)
Net earnings available to common shareholders	\$ 618,120	\$ 69,934	\$ 687,068	\$ 108,197
Earnings per share from continuing operations:				
Basic earnings per share	\$ 0.74	\$ 0.13	\$ 0.82	\$ 0.19
Diluted earnings per share	\$ 0.68	\$ 0.12	\$ 0.76	\$ 0.17
Net earnings per share available to common shareholders:				
Basic earnings per share	\$ 0.96	\$ 0.10	\$ 1.02	\$ 0.16
Diluted earnings per share	\$ 0.89	\$ 0.09	\$ 0.95	\$ 0.14

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2005	December 31, 2004
	(unaudited)	(audited)
(In thousands)		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,492,039	\$ 1,099,698
Restricted cash and cash equivalents	69,414	41,377
Marketable securities	2,143,878	2,409,745
Accounts and notes receivable, net of allowance of \$22,920 and \$21,487, respectively	611,298	497,485
Loans available for sale, net	427,383	206,256
Inventories, net	388,129	240,977
Deferred income taxes	170,450	109,752
Assets held for sale	5,149	339,880
Other current assets	256,178	170,597
	<u>6,563,918</u>	<u>5,115,767</u>
PROPERTY, PLANT AND EQUIPMENT:		
Computer and broadcast equipment	852,998	789,236
Buildings and leasehold improvements	175,504	163,972
Furniture and other equipment	181,487	158,298
Land	20,394	21,168
Projects in progress	147,528	71,247
	<u>1,377,911</u>	<u>1,203,921</u>
Less: accumulated depreciation and amortization	(801,085)	(695,238)
	<u>576,826</u>	<u>508,683</u>
OTHER ASSETS:		
Goodwill	11,741,157	11,210,964
Intangible assets, net	2,540,096	2,333,663
Long-term investments	119,085	1,609,335
Preferred interest exchangeable for common stock	—	1,428,530
Cable distribution fees, net	57,109	77,484
Notes receivable and advances, net of current portion	625	615
Deferred charges and other	177,026	105,075
Non-current assets of discontinued operations	7,731	8,749
	<u>21,783,573</u>	<u>22,398,865</u>
TOTAL ASSETS	\$ 21,783,573	\$ 22,398,865

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2005	December 31, 2004
	(unaudited)	(audited)
	(In thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term obligations and short-term borrowings	\$ 789,862	\$ 562,966
Accounts payable, trade	941,253	787,915
Accounts payable, client accounts	316,635	176,921
Accrued distribution fees	33,979	36,904
Deferred merchant bookings	750,804	361,199
Deferred revenue	128,514	104,611
Income tax payable	1,342,644	57,093
Liabilities held for sale	—	295,773
Other accrued liabilities	533,358	476,152
Current liabilities of discontinued operations	33,641	32,904
	<u>4,870,690</u>	<u>2,892,438</u>
Total current liabilities	4,870,690	2,892,438
Long-term obligations, net of current maturities	794,272	796,715
Other long-term liabilities	147,683	151,580
Non-current liabilities of discontinued operations	8,319	5,546
Deferred income taxes	1,631,339	2,479,678
Common stock exchangeable for preferred interest	—	1,428,530
Minority interest	86,246	39,074
	<u>14,245,024</u>	<u>14,605,304</u>
Total shareholders' equity	14,245,024	14,605,304
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 21,783,573	\$ 22,398,865

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

Total	Preferred Stock		Common Stock		Class B Convertible Common Stock		Addit. Paid-in Capital	Retained Earnings	Accum. Other Comp. Income	Treasury Stock	Note Receivable From Key Executive for Common Stock Issuance
	\$	Shares	\$	Shares	\$	Shares					
(In thousands)											
Balance as of December 31, 2004	\$ 14,605,304	\$ 131 13,118	\$ 6,970 696,983	\$ 646 64,630	\$ 14,058,797	\$ 2,428,760	\$ 81,051	\$ (1,966,053)	\$ (4,998)		
Comprehensive income:											
Net earnings for the six months ended June 30, 2005	693,594	—	—	—	—	—	693,594	—	—	—	—
Increase in unrealized losses in available for sale securities	(22,860)	—	—	—	—	—	—	(22,860)	—	—	—
Foreign currency translation	(25,106)	—	—	—	—	—	—	(25,106)	—	—	—
Net loss on derivative contracts	(308)	—	—	—	—	—	—	(308)	—	—	—
Comprehensive income	645,320										
Issuance of common stock upon exercise of stock options, restricted stock, and other	49,467	—	—	51 5,101	—	—	49,416	—	—	—	—
Income taxes related to stock options exercised, restricted stock, and other, net	(7,897)	—	—	—	—	—	(7,897)	—	—	—	—
Dividends on preferred stock	(6,526)	—	—	—	—	—	—	(6,526)	—	—	—
Amortization of non-cash compensation	108,373	—	—	—	—	—	108,373	—	—	—	—
Sale of VUE interests	33,627	—	—	—	—	—	1,428,530	—	—	(1,394,903)	—
Purchase of treasury stock	(1,182,644)	—	—	—	—	—	—	—	—	(1,182,644)	—
Balance as of June 30, 2005	\$ 14,245,024	\$ 131 13,118	\$ 7,021 702,084	\$ 646 64,630	\$ 15,637,219	\$ 3,115,828	\$ 32,777	\$ (4,543,600)	\$ (4,998)		

Accumulated other comprehensive income, net of tax, is comprised of unrealized (losses) gains on available for sale securities of \$(5,311) and \$17,549 at June 30, 2005 and December 31, 2004, respectively, foreign currency translation adjustments of \$39,806 and \$64,912 at June 30, 2005 and December 31, 2004, respectively, and net losses from derivative contracts of \$(1,718) and \$(1,410) at June 30, 2005 and December 31, 2004, respectively.

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2005	2004
(In thousands)		
Cash flows from operating activities:		
Earnings from continuing operations	\$ 554,444	\$ 137,767
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	235,195	240,722
Amortization of cable distribution fees	33,781	35,033
Amortization of non-cash distribution and marketing expense	3,917	11,072
Amortization of non-cash compensation expense	109,910	124,310
Amortization of deferred financing costs	—	161
Deferred income taxes	(1,023,239)	(56,212)
Gain on sale of VUE	(523,487)	—
Equity in income of unconsolidated affiliates, including VUE	(32,560)	(20,319)
Non-cash interest income	(29,127)	(24,518)
Minority interest in income of consolidated subsidiaries	1,820	1,485
Increase in cable distribution fees	(14,850)	(14,732)
Changes in current assets and liabilities:		
Accounts and notes receivable	(17,459)	26,549
Loans available for sale	(221,076)	—
Inventories	(52,985)	(19,699)
Prepays and other assets	(54,612)	(45,621)
Accounts payable and accrued liabilities	1,421,803	192,516
Deferred revenue	30,951	19,365
Deferred merchant bookings	388,907	295,429
Funds collected by Ticketmaster on behalf of clients, net	120,170	50,159
Other, net	(16,012)	10,749
Net cash provided by operating activities	915,491	964,216
Cash flows provided by (used in) investing activities:		
Acquisitions, net of cash acquired	(712,409)	(286,928)
Capital expenditures	(143,419)	(99,629)
(Increase) decrease in long-term investments and notes receivable	(33,012)	21,818
Purchase of marketable securities	(2,427,212)	(2,180,134)
Proceeds from the sale of marketable securities	2,718,188	2,084,851
Proceeds from sale of VUE	1,882,291	—
Proceeds from sale of Euvia	183,016	—
Other, net	19,191	1,082
Net cash provided by (used in) investing activities	1,486,634	(458,940)
Cash flows provided by (used in) financing activities:		
Warehouse loan borrowings, net	217,152	—
Principal payments on long-term obligations	(37,238)	(729)
Purchase of treasury stock by IAC	(1,172,653)	(249,463)
Proceeds from subsidiary stock, including stock options	555	—
Proceeds from issuance of common stock, including stock options	28,477	65,949
Preferred dividends	(6,526)	(6,526)
Other, net	(3,326)	4,766
Net cash used in financing activities	(973,559)	(186,003)
Net cash (used in) provided by discontinued operations	(3,391)	6,368
Effect of exchange rate changes on cash and cash equivalents	(32,834)	(3,497)
Net increase in cash and cash equivalents	1,392,341	322,144
Cash and cash equivalents at beginning of period	1,099,698	859,618
Cash and cash equivalents at end of period	\$ 2,492,039	\$ 1,181,762

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—ORGANIZATION

IAC/InterActiveCorp operates leading and diversified businesses in sectors being transformed by the internet, online and offline . . . our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. IAC/InterActiveCorp is referred to herein as either IAC or the Company.

IAC consists of the following sectors:

- Retailing, which includes U.S. and International;
- Services, which includes Ticketing, Financial Services & Real Estate, Teleservices and Home Services (since September 2004);
- Media & Advertising;
- Membership & Subscriptions, which includes Vacations, Personals and Discounts; and
- Expedia, Inc., which includes Expedia.com, Hotels.com, Hotwire and TripAdvisor (since April 2004).

On December 21, 2004, IAC announced its plans to separate its travel businesses into an independent public company in order to better achieve certain strategic objectives of its various businesses. In these consolidated financial statements, we refer to this transaction as the "Spin-Off" and to the new company that will hold the travel and travel-related businesses of IAC as "Expedia". On July 19, 2005, IAC's shareholders approved the Spin-Off. The Spin-Off is expected to occur prior to the beginning of trading on August 9, 2005. Following the completion of the Spin-Off:

- Expedia will consist of the travel and travel-related businesses and investments that IAC currently operates (other than Interval International and TV Travel Shop, which will not be spun-off by IAC with Expedia); and
- IAC will continue to operate and/or manage its remaining businesses and investments, which currently comprise its Retailing, Services, Media & Advertising and Membership & Subscriptions sectors. TV Travel Shop ceased operations in the second quarter of 2005 and, accordingly, has been presented as discontinued operations for all periods presented.

In addition, on July 19, 2005 IAC completed the acquisition of Ask Jeeves, Inc. ("Ask Jeeves"), a leading provider of world-class information retrieval technologies, brands and services that are available to consumers across a range of platforms, including destination websites, downloadable search-based applications and portals. Under the terms of the agreement, IAC issued 1.2668 shares of IAC common stock for each share of Ask Jeeves common stock in a tax-free transaction valued as of the date of the agreement at approximately \$1.7 billion, net of cash acquired. On May 5, 2005, IAC completed the buy back of 52.8 million shares of IAC common stock, through its previously authorized share repurchase programs, which represents approximately sixty percent of the number of fully diluted shares IAC issued for the Ask Jeeves acquisition, thus effectively offsetting a substantial portion of the dilution from the transaction.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements and notes thereto of the Company are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2004.

In the opinion of management of the Company, all adjustments necessary for a fair presentation of such consolidated financial statements have been included. Such adjustments consist of normal recurring items. Interim results are not necessarily indicative of results for a full year. The interim consolidated financial statements and notes thereto are presented as permitted by the Securities and Exchange Commission and do not contain certain information included in the Company's annual audited consolidated financial statements and notes thereto.

Accounting Estimates

Management of the Company is required to make certain estimates and assumptions during the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles. These estimates and assumptions impact the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from these estimates.

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

In conjunction with preparing for the Spin-Off and the upcoming adoption of the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123(R) "Share-Based Payment," the Company is conducting an assessment of certain assumptions used in determining the expense related to stock-based compensation. The assessment is expected to be completed by the end of the third quarter and is expected to result in a favorable adjustment to non-cash compensation expense.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" ("SFAS No. 148"), which amends SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS No. 123. The Company adopted the expense recognition provision of SFAS No. 123 and is providing expense for stock-based compensation for grants made on or after January 1, 2003 on a prospective basis as provided by SFAS No. 148, and will continue to provide pro forma information in the notes to financial statements to provide the results as if all equity awards issued in prior years were being expensed. The Company will continue to account for stock-based compensation granted prior to January 1, 2003 in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." For restricted stock units issued, the value of the instrument is measured at the grant date as the fair value of IAC's common stock and amortized ratably as non-cash compensation over the vesting term. For stock options issued since 2003, including unvested options assumed in acquisitions, the value of the options is measured on grant date (or acquisition date, if applicable) at fair value and amortized over the remaining vesting term.

The following table illustrates the effect on net earnings available to common shareholders and net earnings per share if the fair value-based method had been applied to all outstanding and unvested awards in each period:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			
Net earnings available to common shareholders, as reported	\$ 618,120	\$ 69,934	\$ 687,068	\$ 108,197
Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effects	36,327	33,836	67,217	76,009
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(37,808)	(38,616)	(70,178)	(85,569)
Pro forma net earnings available to common shareholders	\$ 616,639	\$ 65,154	\$ 684,107	\$ 98,637
Net earnings per share available to common shareholders:				
Basic as reported	\$ 0.96	\$ 0.10	\$ 1.02	\$ 0.16
Basic pro forma	\$ 0.96	\$ 0.09	\$ 1.02	\$ 0.14
Diluted as reported	\$ 0.89	\$ 0.09	\$ 0.95	\$ 0.14
Diluted pro forma	\$ 0.89	\$ 0.09	\$ 0.95	\$ 0.13

Pro forma information is determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair market value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2005 and 2004: risk-free interest rates of 3.92% and 3.25%, respectively, a dividend yield of zero and volatility factors of 49.05% and 47.35%, respectively, based on the expected market price of IAC common stock based on historical trends; and a weighted-average expected life of the options of five years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis.

On December 16, 2004, the FASB issued FASB Statement No. 123 (R), "Share-Based Payment," which is a revision of SFAS No. 123. Statement 123(R) supersedes APB Opinion No. 25 and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in Statement 123(R) is similar to the approach described in SFAS No. 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro forma disclosure is no longer an alternative. The Company is required to apply Statement 123(R) no later than the first quarter of 2006.

Currently, the Company uses the Black-Scholes formula to estimate the value of stock options granted to employees and expects to continue to use this acceptable option valuation model upon the required adoption of Statement 123(R) on January 1, 2006. Because Statement 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date, and because the Company adopted SFAS No. 123 using the prospective transition method (which applied only to awards granted, modified or settled after the adoption date), compensation cost for some previously granted awards that were not recognized under SFAS No. 123 will be recognized under Statement 123(R). However, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described above in the disclosure of pro forma net earnings and pro forma net earnings per share to the Company's consolidated financial statements. Statement 123(R) also requires the benefits of tax deductions in

excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company is currently assessing the impact of this pronouncement on its consolidated statement of operations and statement of cash flows.

Reclassifications

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the 2005 presentation related to EUVÍA and TV Travel Shop. EUVÍA and TV Travel Shop are accounted for as discontinued operations and accordingly, are excluded from assets and liabilities of continuing operations as of June 30, 2005 and from the results of continuing operations for the three and six months ended June 30, 2005. The December 31, 2004 balance sheet and the statement of operations for the three and six months ended June 30, 2004 have been reclassified to conform to the current period presentation for EUVÍA and TV Travel Shop.

See the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 for a summary of all other significant matters relating to accounting policies.

NOTE 3—SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental Disclosure of Non-Cash Transactions for the Six Months Ended June 30, 2005

For the six months ended June 30, 2005, the Company incurred non-cash compensation expense of \$109.9 million and non-cash distribution and marketing expense of \$3.9 million. Amortization of non-cash distribution and marketing expense consists mainly of non-cash advertising secured from Universal Television as a result of IAC's contribution of the USA Entertainment Group to a joint venture with Vivendi Universal, S.A. ("Vivendi") on May 7, 2002 (the "VUE Transaction"). The non-cash advertising from Universal has historically been used for the benefit of Expedia, which runs television advertising primarily on the USA and Sci Fi cable channels without any cash cost. The advertising provided has been secured by IAC pursuant to an agreement with Universal as part of the VUE Transaction. Sufficient advertising has been secured to satisfy existing obligations.

In connection with IAC's sale of its common and preferred interests in VUE, 56.6 million IAC shares, valued at \$1.4 billion, were reacquired as part of the consideration received in the sale.

For the six months ended June 30, 2005, the Company recognized \$27.7 million of paid-in-kind interest income on the VUE Series A Preferred interest received in connection with the VUE Transaction.

For the six months ended June 30, 2005, the Company recognized pre-tax income of \$32.6 million from equity income of unconsolidated affiliates, including income of \$22.0 million from its common interest in VUE.

For the six months ended June 30, 2005, the Company recognized non-cash revenues of \$13.9 million as a result of deferred revenue recorded in connection with its various acquisitions.

Supplemental Disclosure of Non-Cash Transactions for the Six Months Ended June 30, 2004

For six months ended June 30, 2004, the Company incurred non-cash compensation expense of \$124.3 million and non-cash distribution and marketing expense of \$11.1 million. Amortization of non-cash distribution and marketing expense consists mainly of non-cash advertising secured from Universal Television as part of the VUE Transaction. Ticketmaster and Match.com also recognized non-cash distribution and marketing expense related to barter arrangements, which expired in March 2004, for distribution secured from third parties.

For the six months ended June 30, 2004, the Company recognized \$23.9 million of paid-in-kind interest income on the VUE Series A Preferred interest received in connection with the VUE Transaction.

For the six months ended June 30, 2004, the Company recognized pre-tax income of \$20.3 million from equity income of unconsolidated affiliates, including income of \$10.7 million from its common interest in VUE.

For the six months ended June 30, 2004, the Company recognized non-cash revenues of \$9.9 million as a result of deferred revenue recorded in connection with its various acquisitions.

NOTE 4—INDUSTRY SEGMENTS

The overall concept that IAC employs in determining its Operating and Reportable Segments is to present the financial information in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of products or services offered or the target market. EUVÍA, TV Travel Shop, Styleclick, ECS, and Avaltus, a PRC subsidiary, are presented as discontinued operations and, accordingly, are excluded from the schedules below.

During the second quarter of 2005, and in contemplation of the Spin-Off, the chief operating decision maker and executive management realigned how they view the businesses and how the businesses are organized. Accordingly, beginning in the second quarter of 2005, IAC introduced sector reporting that corresponds to the areas of interactivity in which the Company operates and redefined its Operating Segments to present the results consistent with how the chief operating decision maker and executive management currently view the businesses. The new segment presentation is as follows: the Retailing sector includes the U.S. and International Retailing Operating Segments; the Services sector includes the Ticketing, Financial Services and Real Estate, Teleservices and Home Services Operating Segments; Media & Advertising is its own sector and Operating Segment; and the Membership & Subscriptions sector includes the Vacations, Personals and Discounts Operating Segments. In addition, IAC reports the performance of its Emerging Businesses and corporate expenses. For the second quarter of 2005 and until the Spin-Off, Expedia is presented as an additional segment.

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
(In thousands)				
Revenue:				
Retailing:				
U.S.	\$ 667,112	\$ 438,202	\$ 1,165,068	\$ 905,966
International	94,497	79,286	195,418	172,581
Total Retailing	761,609	517,488	1,360,486	1,078,547
Services:				
Ticketing	257,842	195,104	469,137	397,364
Financial Services and Real Estate	130,342	44,601	236,155	84,349
Teleservices	76,971	72,513	154,109	144,348
Home Services	10,636	—	18,299	—
Total Services	475,791	312,218	877,700	626,061
Media & Advertising	11,504	6,940	20,496	12,720
Membership & Subscriptions:				
Vacations	67,811	63,702	142,831	133,138
Personals	61,155	48,473	115,349	97,308
Discounts	33,080	34,046	57,666	60,320
Intra-sector elimination	(702)	(618)	(729)	(618)
Total Membership & Subscriptions	161,344	145,603	315,117	290,148
Expedia, Inc.	555,007	486,959	1,040,053	900,221
Emerging Businesses	6,237	247	10,006	247
Intersegment elimination(a)	(11,276)	(6,155)	(20,438)	(12,154)
Total	\$ 1,960,216	\$ 1,463,300	\$ 3,603,420	\$ 2,895,790
Operating Income:				
Retailing:				
U.S.	\$ 43,510	\$ 28,343	\$ 86,769	\$ 56,697
International	(589)	56	1,884	1,006
Total Retailing	42,921	28,399	88,653	57,703
Services:				
Ticketing	55,318	40,474	95,349	81,146
Financial Services and Real Estate	6,175	(1,151)	2,886	(4,707)
Teleservices	2,398	4,200	6,619	7,366
Home Services	2,737	—	5,170	—
Total Services	66,628	43,523	110,024	83,805
Media & Advertising	1,836	(16,034)	857	(32,822)
Membership & Subscriptions:				
Vacations	19,513	15,211	46,320	34,972
Personals	9,536	7,805	13,922	10,652
Discounts	(14,309)	(13,747)	(27,935)	(24,483)
Total Membership & Subscriptions	14,740	9,269	32,307	21,141
Expedia, Inc.	141,157	119,963	248,819	186,493
Emerging Businesses	(3,526)	(1,340)	(6,109)	(2,057)
Corporate and other	(91,205)	(74,510)	(170,836)	(164,310)
Total	\$ 172,551	\$ 109,270	\$ 303,715	\$ 149,953

Operating Income Before Amortization:(b)

Retailing:

U.S.	\$	59,012	\$	41,576	\$	115,503	\$	83,164
International		(262)		384		2,537		1,662
Total Retailing		58,750		41,960		118,040		84,826
Services:								
Ticketing		62,710		46,680		109,700		93,527
Financial Services and Real Estate		14,998		5,646		24,734		8,739
Teleservices		2,398		4,200		6,619		7,366
Home Services		3,638		—		5,643		—
Total Services		83,744		56,526		146,696		109,632
Media & Advertising		1,889		(4,323)		963		(9,009)
Membership & Subscriptions:								
Vacations		25,818		21,516		58,930		47,582
Personals		10,410		9,536		15,850		15,870
Discounts		(12,673)		(11,616)		(24,664)		(20,221)
Total Membership & Subscriptions		23,555		19,436		50,116		43,231
Expedia, Inc.		177,372		155,384		317,373		257,041
Emerging Businesses		(3,406)		(1,058)		(5,881)		(1,775)
Corporate and other		(33,658)		(20,069)		(62,561)		(41,803)
Total	\$	308,246	\$	247,856	\$	564,746	\$	442,143

(a) Intersegment eliminations relate to services provided between IAC segments, including call center services provided by PRC to other IAC segments of \$9.8 million and \$4.9 million for the three months ended June 30, 2005 and 2004, and \$17.9 million and \$10.2 million for the six months ended June 30, 2005 and 2004, respectively.

(b) Operating Income Before Amortization is defined as operating income excluding: (1) amortization of non-cash distribution, marketing and compensation expense, (2) amortization of intangibles and goodwill impairment, if applicable, (3) pro forma adjustments for significant acquisitions, if applicable, and (4) one-time items, if applicable. The Company believes this measure is useful to investors because it represents the consolidated operating results from IAC's segments, taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to IAC's statement of operations of certain expenses, including non-cash compensation, non-cash payments to partners, and acquisition-related accounting. IAC endeavors to compensate for the limitations of the non-GAAP measure presented by also providing the comparable GAAP measure with equal or greater prominence, GAAP financial statements and descriptions of the reconciling items and adjustments, including quantifying such items, to derive the non-GAAP measure.

The following table is a reconciliation of consolidated segment Operating Income Before Amortization to consolidated operating income and net earnings available to common shareholders.

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
	(In thousands)			
Operating Income Before Amortization	\$ 308,246	\$ 247,856	\$ 564,746	\$ 442,143
Amortization of non-cash distribution and marketing expense	(3,485)	(4,733)	(3,917)	(11,072)
Amortization of non-cash compensation expense	(59,382)	(55,342)	(109,910)	(124,310)
Amortization of intangibles	(72,828)	(78,511)	(147,204)	(156,808)
Operating income	172,551	109,270	303,715	149,953
Interest income	45,741	48,126	99,750	93,334
Interest expense	(18,946)	(19,457)	(40,609)	(38,850)
Gain on sale of VUE	523,487	—	523,487	—
Equity in the income of VUE	43,126	11,038	21,960	10,686
Equity in income of unconsolidated affiliates and other(a)	19,080	5,195	24,000	12,370
Income tax expense	(304,327)	(59,417)	(376,039)	(88,241)
Minority interest in income of consolidated subsidiaries	(1,469)	(974)	(1,820)	(1,485)
Gain on sale of EUVÍA, net of tax	79,648	—	79,648	—
Income (loss) from discontinued operations, net of tax	62,492	(20,585)	59,502	(23,044)
Preferred dividends	(3,263)	(3,262)	(6,526)	(6,526)
Net earnings available to common shareholders	\$ 618,120	\$ 69,934	\$ 687,068	\$ 108,197

- (a) Other income/expense for the six months ended June 30, 2005 includes a \$16.7 million gain on the sale of the Company's minority interest share in the Italian home shopping operations, partially offset by \$13.2 million of realized losses on marketable securities.

The Company maintains operations in the United States, Germany, the United Kingdom, Canada and other international territories. Geographic information about the United States and international territories is presented below.

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
	(In thousands)			
Revenue				
United States	\$ 1,650,003	\$ 1,245,680	\$ 2,997,730	\$ 2,452,213
All other countries	310,213	217,620	605,690	443,577
	\$ 1,960,216	\$ 1,463,300	\$ 3,603,420	\$ 2,895,790
			June 30, 2005	December 31, 2004
			(In thousands)	
Long-lived assets				
United States			\$ 587,605	\$ 536,699
All other countries			46,330	49,468
			\$ 633,935	\$ 586,167

NOTE 5—GOODWILL AND OTHER INTANGIBLE ASSETS

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

	June 30, 2005	December 31, 2004
Goodwill	\$ 11,741,157	\$ 11,210,964
Intangible assets with indefinite lives	1,758,652	1,469,919
Intangible assets with definite lives	781,444	863,744
	<u>\$ 14,281,253</u>	<u>\$ 13,544,627</u>

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At June 30, 2005, intangible assets with definite lives relate principally to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Distribution agreements	\$ 409,607	\$ (246,608)	\$ 162,999	4.8
Purchase agreements	299,214	(156,825)	142,389	8.0
Technology	279,411	(166,577)	112,834	4.4
Supplier relationships	212,377	(125,523)	86,854	3.7
Customer lists	208,646	(49,929)	158,717	8.1
Merchandise agreements	41,957	(22,477)	19,480	5.8
Affiliate agreements	33,049	(6,637)	26,412	10.0
Domain names	13,186	(1,638)	11,548	6.7
Other	120,856	(60,645)	60,211	4.3
	<u>\$ 1,618,303</u>	<u>\$ (836,859)</u>	<u>\$ 781,444</u>	

At December 31, 2004, intangible assets with definite lives relate principally to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Distribution agreements	\$ 687,753	\$ (484,306)	\$ 203,447	5.2
Purchase agreements	291,941	(133,499)	158,442	11.6
Technology	277,235	(134,545)	142,690	4.4
Supplier relationships	208,776	(104,985)	103,791	3.6
Customer lists	169,486	(34,739)	134,747	9.0
Merchandise agreements	41,957	(18,719)	23,238	5.8
Affiliate agreements	33,049	(4,984)	28,065	10.0
Domain names	13,157	(302)	12,855	8.8
Other	104,635	(48,166)	56,469	5.3
	<u>\$ 1,827,989</u>	<u>\$ (964,245)</u>	<u>\$ 863,744</u>	

Amortization of intangible assets with definite lives is computed on a straight-line basis and based on December 31, 2004 balances for the next five years and thereafter is estimated to be as follows (in thousands):

Years ending December 31,	
2005	\$ 274,373
2006	211,639
2007	136,205
2008	96,724
2009	44,490
2010 and thereafter	100,313
	\$ 863,744

The following table presents the balance of goodwill by segment including the changes in carrying amount of goodwill for the six months ended June 30, 2005 (in thousands):

	Balance as of January 1, 2005	Additions	(Deductions)	Foreign Exchange Translation	Balance as of June 30, 2005
Retailing:					
U.S.	\$ 2,436,892	\$ 487,703	\$ (2,988)	\$ —	\$ 2,921,607
International	108,779	1,311	—	—	110,090
Total Retailing	2,545,671	489,014	(2,988)	—	3,031,697
Services:					
Ticketing	1,036,019	9,798	(769)	(3,878)	1,041,170
Financial Services and Real Estate	592,465	721	(10,680)	—	582,506
Teleservices	128,655	691	—	—	129,346
Home Services	112,973	63	(205)	—	112,831
Total Services	1,870,112	11,273	(11,654)	(3,878)	1,865,853
Membership & Subscriptions:					
Vacations	467,564	—	—	—	467,564
Personals	221,728	249	(20)	166	222,123
Discounts	256,751	1,398	(87)	—	258,062
Total Membership & Subscriptions	946,043	1,647	(107)	166	947,749
Expedia, Inc.	5,849,138	93,512	(26,895)	(19,907)	5,895,848
Emerging Businesses	—	10	—	—	10
Total	\$ 11,210,964	\$ 594,456	\$ (41,644)	\$ (23,619)	\$ 11,741,157

Additions principally relate to new acquisitions, primarily Cornerstone and eLong. Deductions principally relate to (1) adjustments to the carrying value of goodwill based upon the finalization of the valuation of intangible assets and their related deferred tax impacts and (2) the income tax benefit realized pursuant to the exercise of stock options assumed in business acquisitions that were vested at the transaction date and are treated as a reduction in purchase price when the deductions are realized.

Cornerstone Goodwill

On April 1, 2005, the Company completed its acquisition of Cornerstone Brands, Inc., a portfolio of leading print catalogs and online retailing sites that sell home products and leisure and casual apparel, for approximately \$715 million, principally in cash. Cornerstone joined IAC's U.S. Retailing

operating segment. IAC obtained a preliminary independent valuation of identifiable intangible assets acquired. This valuation identifies \$309.1 million of intangible assets other than goodwill. The trade name was identified as an indefinite-lived intangible and \$269.4 million was allocated to this asset. Intangibles with definite lives included customer lists (\$31.4 million), existing technology (\$4.1 million), vendor and supply agreements (\$3.0 million) and intellectual property (\$1.2 million) and are being amortized over a weighted average period of 4.8 years. The net purchase price consideration paid for Cornerstone was based on historical as well as expected performance metrics. The Company viewed Cornerstone's revenue, operating income, Operating Income Before Amortization, net income and cash flow as its most important valuation metrics. The Company agreed to a purchase price that resulted in a significant amount of goodwill for a number of reasons including: (1) Cornerstone's market leading position and brand; (2) Cornerstone's business model which complements the business models of the Company's other businesses; (3) growth opportunities in the markets in which Cornerstone operates; and (4) Cornerstone's distinctly unique, proprietary and exclusive product lines which will enable the Company to grow. As a result, the predominant portion of the purchase price was based on the expected financial performance of Cornerstone, and not the asset value on the books at the time of the acquisition. These factors resulted in a significant amount of the purchase price being allocated to goodwill.

NOTE 6—RESTRUCTURING CHARGES

As of June 30, 2005 and December 31, 2004, the accrual balance related to restructuring charges was \$1.1 million and \$1.8 million, respectively. The 2005 balance relates primarily to ongoing obligations for facility leases and employee termination agreements, and are expected to be paid out according to the terms of these arrangements.

During the six months ended June 30, 2005, restructuring related expense, which is included in general and administrative expense in the accompanying statements of operations, was \$0.4 million. Included in this amount are additional severance costs incurred in connection with the shut down of certain HSN facilities as HSN migrates certain operations to its new fulfillment center in Tennessee. In addition, during the six months ended June 30, 2005, the Company made payments of \$1.1 million related principally to lease obligations for abandoned facilities and employee termination costs. Also included in general and administrative expense in the accompanying statements of operations is restructure related income related to the settlement of an uncollectible receivable that had been previously written off related to the restructuring of HSN's UK offices which did not impact the restructure accrual.

NOTE 7—EQUITY INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Through June 7, 2005, IAC beneficially owned 5.44% of the partnership common equity of VUE, plus certain preferred interests of VUE. This common interest was accounted for using the equity method. On June 7, 2005, the Company sold its common and preferred interests in VUE to NBC Universal (see Note 11 for further discussion of the sale of the VUE interests). Prior to the sale, the statement of operations data was historically recorded on a one-quarter lag due to the timing of receiving information from the partnership. During the fourth quarter of 2004, VUE recorded a charge related to asset impairments. Due to the one-quarter lag noted above, that charge was recorded by IAC in the first quarter of 2005. Equity in the income of VUE recognized in the quarter ended June 30, 2005 represents IAC's share in VUE's first quarter results as well as IAC's share of VUE's results from April 1, 2005 through June 7, 2005.

Due to the significance of the results of VUE in relation to IAC's results in 2005, summary financial information for VUE is presented below.

Summarized balances of the partnership are as follows (in thousands):

	As of March 31, 2005 and for the period October 1, 2004 to June 7, 2005	
Current assets	\$	3,755,581
Non-current assets		13,904,821
Current liabilities		2,541,519
Non-current liabilities		3,714,663
Net sales		5,633,353
Gross profit		1,707,191
Net income		441,855

Summarized aggregated financial information for the Company's remaining equity investments, including Jupiter Shop Channel (Japan), TVSN (China), TM Mexico, and GL Expedia (France), as of and for the six months ended June 30, 2005 is as follows (in thousands):

	As of and for the six months ended June 30, 2005	
Current assets	\$	185,703
Non-current assets		67,792
Current liabilities		130,591
Non-current liabilities		28,021
Net sales		355,651
Gross profit		148,230
Net income		31,824

In January 2005, IAC exercised its warrant to acquire additional eLong shares. Following the exercise of the warrant, IAC owed approximately 52% of the outstanding capital stock of eLong on a fully diluted basis, representing approximately 96% of the total voting power of eLong. Accordingly, the Company began to consolidate the results of eLong effective January 2005.

In April 2005, Ticketmaster acquired the remaining interest in its Australian joint venture. Accordingly, the Company began to consolidate the results of the Australian joint venture effective April 2005.

NOTE 8—EARNINGS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
(In thousands, except per share data)				
Earnings from continuing operations:				
Numerator:				
Earnings from continuing operations	\$ 479,243	\$ 93,781	\$ 554,444	\$ 137,767
Preferred stock dividends(b)	(3,263)	(3,262)	(6,526)	(6,526)
Net earnings from continuing operations available to common shareholders after assumed conversions	\$ 475,980	\$ 90,519	\$ 547,918	\$ 131,241
Denominator:				
Basic shares outstanding	643,716	698,564	670,958	698,032
Dilutive securities including stock options, warrants and restricted stock and share units	56,639	52,058	56,459	53,363
Denominator for diluted earnings per share—weighted average shares(a)	700,355	750,622	727,417	751,395

Net earnings available to common shareholders:**Numerator:**

Earnings before preferred dividends	\$ 621,383	\$ 73,196	\$ 693,594	\$ 114,723
Preferred stock dividends(b)	(3,263)	(3,262)	(6,526)	(6,526)

Net earnings available to common shareholders after assumed conversions

\$ 618,120	\$ 69,934	\$ 687,068	\$ 108,197
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Denominator:

Basic shares outstanding	643,716	698,564	670,958	698,032
Dilutive securities including stock options, warrants and restricted stock and share units	56,639	52,058	56,459	53,363

Denominator for diluted earnings per share—weighted average shares(a)

700,355	750,622	727,417	751,395
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Earnings (loss) per share:

Basic earnings per share from continuing operations	\$ 0.74	\$ 0.13	\$ 0.82	\$ 0.19
Discontinued operations, net of taxes	0.22	(0.03)	0.20	(0.03)

Basic earnings per share from net earnings	\$ 0.96	\$ 0.10	\$ 1.02	\$ 0.16
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Diluted earnings per share from continuing operations	\$ 0.68	\$ 0.12	\$ 0.76	\$ 0.17
Discontinued operations, net of taxes	0.21	(0.03)	0.19	(0.03)

Diluted earnings per share from net earnings	\$ 0.89	\$ 0.09	\$ 0.95	\$ 0.14
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(a) Weighted average common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options and warrants and the vesting of restricted stock units. For the three and six months ended June 30, 2004, approximately 19.4 million shares issuable upon conversion of the Company's preferred stock were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

(b) For the three and six months ended June 30, 2005, approximately 19.4 million shares of the Company's preferred stock were included in the calculation of diluted earnings per share because their inclusion was dilutive. Accordingly, under the "if-converted" method the preferred stock dividends were excluded from the numerator in calculating diluted earnings per share.

NOTE 9—NOTES OFFERING AND GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

In December 2002, the Company issued \$750 million of 7% Senior Notes (the "2002 Senior Notes"). The notes, by their terms, are fully and unconditionally guaranteed by USANi LLC (the "Guarantor"). USANi LLC is wholly owned by the Company.

The following tables present condensed consolidating financial information as of June 30, 2005 and for the three and six months ended June 30, 2005 and 2004 for: (1) the Company on a stand-alone basis, (2) the Guarantor, USANi LLC, on a stand-alone basis, (3) the combined non-guarantor subsidiaries of the Company (including the subsidiaries of USANi LLC (collectively, the "Non-Guarantor Subsidiaries")) and (4) the Company on a consolidated basis.

As of and for the three and six months ended June 30, 2005:

	IAC	USANi LLC	Non-Guarantor Subsidiaries	Total Elimination	IAC Consolidated
(In thousands)					
Balance Sheet as of June 30, 2005:					
Current assets	\$ 164,377	\$ 3,583,589	\$ 2,815,952	\$ —	\$ 6,563,918
Property and equipment, net	—	100,398	476,428	—	576,826
Goodwill and other intangible assets, net	—	—	14,281,253	—	14,281,253
Investment in subsidiaries	19,925,330	1,356,602	77,620	(21,359,552)	—
Other assets	90,236	5,305	258,304	—	353,845
Non-current assets of discontinued operations	—	—	7,731	—	7,731
Total assets	\$ 20,179,943	\$ 5,045,894	\$ 17,917,288	\$ (21,359,552)	\$ 21,783,573
Current liabilities	\$ 16,204	\$ 1,372,366	\$ 3,448,479	\$ —	\$ 4,837,049
Current liabilities of discontinued operations	—	—	33,641	—	33,641
Long-term debt, less current portion	756,721	—	37,551	—	794,272
Other liabilities and minority interest	697,234	8,650	1,159,384	—	1,865,268
Intercompany liabilities	4,464,760	(819,375)	(3,645,385)	—	—
Non-current liabilities of discontinued operations	—	—	8,319	—	8,319
Interdivisional equity	—	—	16,532,469	(16,532,469)	—
Shareholders' equity	14,245,024	4,484,253	342,830	(4,827,083)	14,245,024
Total liabilities and shareholders' equity	\$ 20,179,943	\$ 5,045,894	\$ 17,917,288	\$ (21,359,552)	\$ 21,783,573
Statement of operations for the three months ended June 30, 2005:					
Revenue	\$ —	\$ —	\$ 1,960,216	\$ —	\$ 1,960,216
Operating expenses	—	(89,366)	(1,698,299)	—	(1,787,665)
Interest income (expense), net	(100,473)	90,318	36,950	—	26,795
Other income, net	580,410	663,669	49,110	(707,496)	585,693
Income tax benefit (expense)	—	4,107	(308,434)	—	(304,327)
Minority interest	(694)	—	(775)	—	(1,469)
Earnings from continuing operations	479,243	668,728	38,768	(707,496)	479,243
Discontinued operations, net of tax	142,140	3,326	138,814	(142,140)	142,140
Net earnings	621,383	672,054	177,582	(849,636)	621,383
Preferred dividends	(3,263)	—	—	—	(3,263)
Net earnings available to common shareholders	\$ 618,120	\$ 672,054	\$ 177,582	\$ (849,636)	\$ 618,120
Statement of operations for the six months ended June 30, 2005:					
Revenue	\$ —	\$ —	\$ 3,603,420	\$ —	\$ 3,603,420
Operating expenses	—	(166,484)	(3,133,221)	—	(3,299,705)
Interest income (expense), net	(162,432)	163,321	58,252	—	59,141
Other income, net	717,920	699,101	70,500	(918,074)	569,447
Income tax expense	—	(6,256)	(369,783)	—	(376,039)
Minority interest	(1,044)	—	(776)	—	(1,820)
Earnings from continuing operations	554,444	689,682	228,392	(918,074)	554,444
Discontinued operations, net of tax	139,150	3,326	135,824	(139,150)	139,150
Net earnings	693,594	693,008	364,216	(1,057,224)	693,594
Preferred dividends	(6,526)	—	—	—	(6,526)
Net earnings available to common shareholders	\$ 687,068	\$ 693,008	\$ 364,216	\$ (1,057,224)	\$ 687,068
Statement of cash flows for the six months ended June 30 2005:					
Cash flows (used in) provided by operating activities	\$ (135,161)	\$ 35,495	\$ 1,015,157	\$ —	\$ 915,491
Cash flows (used in) provided by investing activities	(757,092)	2,150,757	92,969	—	1,486,634
Cash flows provided by (used in) financing activities	895,521	(1,354,725)	(514,355)	—	(973,559)
Net cash used in discontinued operations	—	—	(3,391)	—	(3,391)
Effect of exchange rate changes on cash and cash equivalents	(3,268)	—	(29,566)	—	(32,834)
Cash and cash equivalents at beginning of period	—	681,215	418,483	—	1,099,698
Cash and cash equivalents at end of period	\$ —	\$ 1,512,742	\$ 979,297	\$ —	\$ 2,492,039

	IAC	USANi LLC	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
	(In thousands)				
Statement of operations for the three months ended June 30, 2004:					
Revenue	\$ —	\$ —	\$ 1,463,300	\$ —	\$ 1,463,300
Operating expenses	—	(73,343)	(1,280,687)	—	(1,354,030)
Interest income (expense), net	32,797	(24,161)	20,033	—	28,669
Other income (expense), net	79,781	29,709	(4,590)	(88,667)	16,233
Income tax (expense) benefit	(18,797)	35,076	(75,696)	—	(59,417)
Minority interest	—	—	(974)	—	(974)
Earnings (loss) from continuing operations	93,781	(32,719)	121,386	(88,667)	93,781
Discontinued operations, net of tax	(20,585)	—	(20,585)	20,585	(20,585)
Net earnings (loss)	73,196	(32,719)	100,801	(68,082)	73,196
Preferred dividends	(3,262)	—	—	—	(3,262)
Net earnings (loss) available to common shareholders	\$ 69,934	\$ (32,719)	\$ 100,801	\$ (68,082)	\$ 69,934
Statement of operations for the six months ended June 30, 2004:					
Revenue	\$ —	\$ —	\$ 2,895,790	\$ —	\$ 2,895,790
Operating expenses	—	(162,601)	(2,583,236)	—	(2,745,837)
Interest income (expense), net	61,046	(41,613)	35,051	—	54,484
Other income (expense), net	108,073	55,304	(1,293)	(139,028)	23,056
Income tax (expense) benefit	(31,352)	75,707	(132,596)	—	(88,241)
Minority interest	—	—	(1,485)	—	(1,485)
Earnings (loss) from continuing operations	137,767	(73,203)	212,231	(139,028)	137,767
Discontinued operations, net of tax	(23,044)	—	(23,044)	23,044	(23,044)
Net earnings (loss)	114,723	(73,203)	189,187	(115,984)	114,723
Preferred dividends	(6,526)	—	—	—	(6,526)
Net earnings (loss) available to common shareholders	\$ 108,197	\$ (73,203)	\$ 189,187	\$ (115,984)	\$ 108,197
Statement of cash flows for the six months ended June 30, 2004:					
Cash flows provided by (used in) operating activities	\$ 65,219	\$ (98,224)	\$ 997,221	\$ —	\$ 964,216
Cash flows (used in) provided by investing activities	(13,484)	(1,020,787)	575,331	—	(458,940)
Cash flows (used in) provided by financing activities	(51,735)	1,136,514	(1,270,782)	—	(186,003)
Net cash provided by discontinued operations	—	—	6,368	—	6,368
Effect of exchange rate changes on cash and cash equivalents	—	—	(3,497)	—	(3,497)
Cash and cash equivalents at beginning of period	—	523,634	335,984	—	859,618
Cash and cash equivalents at end of period	\$ —	\$ 541,137	\$ 640,625	\$ —	\$ 1,181,762

NOTE 10—DERIVATIVE INSTRUMENTS

In 2004 and 2003, the Company entered into various interest rate swap agreements with notional amounts of \$250 million and \$150 million, respectively, related to a portion of the 2002 Senior Notes. The interest rate swaps allow IAC to receive fixed rate amounts in exchange for making floating rate payments based on LIBOR, which effectively changes the Company's interest rate exposure on a portion of the debt. As of June 30, 2005, of the \$750 million total notional amount of the 2002 Senior Notes, the interest rate is fixed on \$350 million with the balance of \$400 million remaining at a floating

rate of interest based on the spread over 6-month LIBOR. To further manage risk, the Company sold swap agreements for nominal gains during 2004, which are being amortized over the remaining life of the 2002 Senior Notes. The changes in fair value of the interest rate swaps at June 30, 2005 and 2004 resulted in an unrealized gain of \$6.6 million and an unrealized loss of \$16.4 million, respectively. The fair value of the contracts is recorded in the accompanying balance sheet in other non-current assets with a corresponding offset to the carrying value of the related debt. The gain or loss on the derivative in the period of change and the loss or gain of the hedged item attributed to the hedged risk are recognized in the accompanying statements of operations and are offsetting.

LendingTree Loans, in connection with its mortgage banking operations, is exposed to additional interest rate risk. The fair value of loans held for sale is subject to change primarily due to changes in market interest rates. LendingTree Loans hedges the changes in fair value of the loans held for sale primarily by using mortgage forward delivery contracts. These hedging relationships are documented as fair value hedges. The fair value of loans held for sale is determined using current secondary market prices for loans with similar coupons, maturities and credit quality. For loans held for sale that are hedged with forward delivery contracts, the carrying value of the loans held for sale and the derivatives is adjusted for the change in fair value during the time the hedge was deemed to be highly effective. The effective portion of the derivative and the loss or gain of the hedged item attributed to the hedged risk are recognized in the accompanying statement of operations as a component of revenue and are offsetting. If it is determined that the hedging relationship is not highly effective, hedge accounting is discontinued. When hedge accounting is discontinued, the affected loans held for sale are no longer adjusted for changes in fair value, however, the changes in fair value of derivative instruments are recognized in current earnings as a component of revenue. For the three and six months ended June 30, 2005, the Company recognized \$0.9 million and \$1.1 million in losses, respectively, related to hedge ineffectiveness and \$0.3 million in gains and \$0.6 million in losses, respectively, related to changes in the fair value of derivative instruments when hedge accounting was discontinued. The fair value of the hedge instruments is recorded in other current assets in the accompanying balance sheet.

LendingTree Loans enters into commitments with consumers to originate loans at a locked in interest rate (interest rate lock commitments—"IRLCs"). IAC reports IRLCs as derivative instruments in accordance with SEC Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments" ("SAB 105"), and SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and determines the fair value of IRLCs using current secondary market prices for underlying loans with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability, or fallout factor. Similar to loans held for sale, the fair value of IRLCs is subject to change primarily due to changes in interest rates and fallout factors. Under LendingTree Loans' risk management policy, LendingTree Loans hedges the changes in fair value of IRLCs primarily by entering into forward delivery contracts which can reduce the volatility of earnings. Both the IRLCs and the related hedging instrument do not qualify for hedge accounting and are recorded at fair value with changes in fair value being recorded in current earnings as a component of revenue in the accompanying statement of operations. The change in the fair value of these derivative instruments for the three and six months ended June 30, 2005 resulted in a loss of \$1.8 million and \$1.9 million, respectively, which has been recognized in the accompanying statement of operations. The fair value of the IRLCs is recorded in other current liabilities in the accompanying balance sheet.

On April 29, 2003, one of the Company's foreign subsidiaries entered into a five-year foreign exchange forward contract with a notional amount of \$38.6 million, which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary's functional currency. This derivative contract has been designated as a cash flow hedge for accounting purposes and foreign exchange re-measurement gains and losses related to the contract and liability are recognized each period in the statements of operations and are offsetting. In addition, the remaining effective portion of the derivative's gain or loss is recorded in other comprehensive income (loss) until the liability is extinguished. The change in fair value of this foreign exchange forward contract at June 30, 2005 and 2004 resulted in an unrealized loss of \$6.4 million and \$5.4 million, respectively.

On November 26, 2003, Expedia entered into a ten-year cross currency swap with a notional amount of Euro 39 million which is to mature on October 30, 2013 and is used to hedge against the change in value of an asset denominated in a currency other than the subsidiary's functional currency. This swap enables the Company to pay Euro at a rate of the three-month EURIBOR plus 0.50% on Euro 39 million. In exchange the Company receives 4.9% interest on \$46.4 million U.S. dollars. In addition, on April 14, 2004, Expedia entered into a cross currency swap with a notional amount of Euro 38.2 million which is to mature on April 7, 2014 and is used to hedge against the change in value of an asset in a similar manner to the swap described above. This swap enables the Company to pay Euro at a rate of the six-month EURIBOR plus 0.90% on Euro 38.2 million. In exchange the Company receives 5.47% interest on \$45.9 million U.S. dollars. At the respective dates of maturity, these agreements call for the exchange of notional amounts. These derivative contracts have been designated as cash flow hedges for accounting purposes and foreign exchange re-measurement gains and losses related to these contracts and assets are recognized each period in the accompanying statements of operations and are offsetting. In addition, the remaining effective portion of these derivatives' gain or losses are recorded in other comprehensive income (loss) until the hedged items are extinguished. The changes in fair value of these cross currency swaps at June 30, 2005 and 2004 resulted in unrealized gains of \$0.6 million and unrealized losses of \$5.5 million, respectively. There was no ineffectiveness related to these cash flow hedges recognized in the accompanying statements of operations for the periods presented.

Periodically, Expedia has purchased 30 day foreign currency forwards in order to mitigate the effects of the changes in exchange rates between the time in which payables to hotel vendors in foreign countries are recorded and when they are settled. The changes in fair value of these foreign currency forwards are included as a component of cost of sales in the accompanying statements of operations. During the period ended June 30, 2004, the Company recognized nominal gains from forward contracts. During the period ended June 30, 2005, the Company did not enter into any foreign currency forward contracts.

NOTE 11—SALE OF VUE INTERESTS

On June 7, 2005, IAC completed a transaction with General Electric and Vivendi Universal in which IAC sold its common and preferred interests in VUE for approximately \$3.4 billion in aggregate consideration consisting of approximately \$1.9 billion in cash, 56.6 million IAC common shares formerly held by NBC Universal and \$115 million of television advertising time that NBC Universal will provide through its media outlets over a three-year period. Based upon the closing price of IAC common stock on June 7, 2005 of \$24.64, the 56.6 million IAC common shares have a market value of approximately

\$1.4 billion. The transaction resulted in an after-tax gain of \$322.1 million. The after-tax gain was determined as follows (in thousands):

Proceeds received:	
Cash	\$ 1,882,291
Value of 56.6 million IAC common shares	1,394,903
Television advertising time	115,000
	<hr/>
Total proceeds received	3,392,194
	<hr/>
Book value of VUE interests:	
Common interest	804,733
Preferred A interest	632,444
Preferred B interest	1,428,530
	<hr/>
Total book value of VUE interests	2,865,707
Less: Transaction costs	(3,000)
	<hr/>
	2,862,707
	<hr/>
Pre-tax gain	523,487
Income tax expense	(201,384)
	<hr/>
After-tax gain on sale of VUE interests	\$ 322,103
	<hr/>

NOTE 12—DISCONTINUED OPERATIONS

In March 2005, IAC, through its subsidiary HSN International, announced that it had entered into an agreement to sell its 48.6% interest in EUVÍA to the German Media Company, ProSiebenSat. 1 Media AG, for approximately \$204 million. EUVÍA operates two television channels, 9Live, an interactive game and quiz show-oriented television channel, and Sonnenklar, a travel-oriented television channel. This sale closed on June 2, 2005 and resulted in a pre-tax gain of \$129.3 million and an after-tax gain of \$79.6 million. In addition, during the second quarter of 2005, TV Travel Shop ceased the sale of third-party travel products through its broadcast programming. Accordingly, the results of operations and statement of position of these businesses are presented as discontinued operations for all periods presented. The 2005 results include a tax benefit of approximately \$62.8 million related to the write-off of the Company's investment in TV Travel Shop. The revenues and net earnings, net of the effect of any minority interest for the aforementioned discontinued operations for the applicable periods, were as follow:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
	(In thousands)			
Revenue	\$ 25,118	\$ 37,853	\$ 63,801	\$ 76,099
Earnings before income taxes and minority interest	\$ 3,501	\$ 5,506	\$ 8,178	\$ 3,123
Income tax benefit (expense)	61,376	(24,194)	56,935	(23,385)
Minority interest in income of consolidated subsidiaries	(2,385)	(1,897)	(5,611)	(2,782)
Net earnings (loss)	\$ 62,492	\$ (20,585)	\$ 59,502	\$ (23,044)

GENERAL

Management Overview

IAC/InterActiveCorp operates leading and diversified businesses in sectors being transformed by the internet, online and offline... our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. All references to "IAC," the "Company," "we," "our," or "us" in this report are to IAC/InterActiveCorp.

IAC consists of the following sectors:

- Retailing, which includes U.S., including Cornerstone Brands, Inc. (since April 2005), and International;
- Services, which includes Ticketing, Financial Services & Real Estate, Teleservices and Home Services (since September 2004);
- Media & Advertising;
- Membership & Subscriptions, which includes Vacations, Personals and Discounts; and
- Expedia, Inc., which includes Expedia.com, Hotels.com, Hotwire and TripAdvisor (since April 2004).

On December 21, 2004, IAC announced its plans to separate its travel businesses into an independent public company in order to better achieve certain strategic objectives of its various businesses. We refer to this transaction as the "Spin-Off" and to the new company that will hold the travel and travel-related businesses of IAC as "Expedia". On July 19, 2005, IAC's shareholders approved the Spin-Off. The Spin-Off is expected to occur prior to the beginning of trading on August 9, 2005. Following the completion of the Spin-Off:

- Expedia will consist of the travel and travel-related businesses and investments that IAC currently operates (other than Interval International and TV Travel Shop, which will not be spun-off by IAC with Expedia); and
- IAC will continue to operate and/or manage its remaining businesses and investments, which currently comprise its Retailing, Services, Media & Advertising and Membership & Subscriptions sectors. TVTS ceased operations in the second quarter of 2005 and, accordingly, has been presented as discontinued operations for all periods presented.

In addition, on July 19, 2005 IAC completed the acquisition of Ask Jeeves, Inc. ("Ask Jeeves"), a leading provider of world-class information retrieval technologies, brands and services that are available to consumers across a range of platforms, including destination websites, downloadable search-based applications and portals. Under the terms of the agreement, IAC issued 1.2668 shares of IAC common stock for each share of Ask Jeeves common stock in a tax-free transaction valued as of the date of the agreement at approximately \$1.7 billion net of cash acquired. On May 5, 2005, IAC completed the buy back of 52.8 million shares of IAC common stock, through its previously authorized share repurchase programs, which represents approximately sixty percent of the number of fully diluted shares IAC issued for the Ask Jeeves acquisition, thus effectively offsetting a substantial portion of the dilution from the transaction.

Results of operations for the three and six months ended June 30, 2005 compared to the three and six months ended June 30, 2004

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

Amortization (as defined in IAC's Principles of Financial Reporting) for the three and six months ended June 30, 2005 and 2004 (rounding differences may occur):

	Three months ended June 30,				Six months ended June 30,			
	2005	Percentage of total	2004	Percentage of total	2005	Percentage of total	2004	Percentage of total
(Dollars in millions)								
Revenue:								
Retailing	\$ 761.6	39%	\$ 517.5	35%	\$ 1,360.5	38%	\$ 1,078.5	37%
Services	475.8	24%	312.2	21%	877.7	24%	626.1	22%
Media & Advertising	11.5	1%	6.9	0%	20.5	1%	12.7	0%
Membership & Subscriptions	161.3	8%	145.6	10%	315.1	9%	290.1	10%
Expedia, Inc.	555.0	28%	487.0	33%	1,040.1	29%	900.2	31%
Emerging Businesses	6.2	0%	0.2	0%	10.0	0%	0.2	0%
Intersegment elimination	(11.3)	(1%)	(6.2)	0%	(20.4)	(1%)	(12.2)	0%
Total	\$ 1,960.2	100%	\$ 1,463.3	100%	\$ 3,603.4	100%	\$ 2,895.8	100%

	Three months ended June 30,				Six months ended June 30,			
	2005	Percentage of total	2004	Percentage of total	2005	Percentage of total	2004	Percentage of total
(Dollars in millions)								
Operating Income (Loss):								
Retailing	\$ 42.9	25%	\$ 28.4	26%	\$ 88.7	29%	\$ 57.7	38%
Services	66.6	39%	43.5	40%	110.0	36%	83.8	56%
Media & Advertising	1.8	1%	(16.0)	(15%)	0.9	0%	(32.8)	(22%)
Membership & Subscriptions	14.7	9%	9.3	8%	32.3	11%	21.1	14%
Expedia, Inc.	141.2	82%	120.0	110%	248.8	82%	186.5	124%
Emerging Businesses	(3.5)	(2%)	(1.3)	(1%)	(6.1)	(2%)	(2.1)	(1%)
Corporate and other	(91.2)	(53%)	(74.5)	(68%)	(170.8)	(56%)	(164.3)	(110%)
Total	\$ 172.6	100%	\$ 109.3	100%	\$ 303.7	100%	\$ 150.0	100%

	Three months ended June 30,				Six months ended June 30,			
	2005	Percentage of total	2004	Percentage of total	2005	Percentage of total	2004	Percentage of total
(Dollars in millions)								
Operating Income Before Amortization:								
Retailing	\$ 58.7	19%	\$ 42.0	17%	\$ 118.0	21%	\$ 84.8	19%
Services	83.7	27%	56.5	23%	146.7	26%	109.6	25%
Media & Advertising	1.9	1%	(4.3)	(2%)	1.0	0%	(9.0)	(2%)
Membership & Subscriptions	23.6	8%	19.4	8%	50.1	9%	43.2	10%
Expedia, Inc.	177.4	58%	155.4	63%	317.4	56%	257.0	58%
Emerging Businesses	(3.4)	(1%)	(1.1)	0%	(5.9)	(1%)	(1.8)	0%
Corporate and other	(33.6)	(11%)	(20.1)	(8%)	(62.5)	(11%)	(41.8)	(9%)
Total	\$ 308.3	100%	\$ 247.9	100%	\$ 564.7	100%	\$ 442.1	100%

IAC Consolidated Results

For the three months ended June 30, 2005 compared to the three months ended June 30, 2004

Revenue increased \$496.9 million, or 34%, primarily driven by revenue increases of \$244.1 million, or 47%, from the Retailing sector, \$163.6 million, or 52%, from the Services sector and \$68.0 million, or 14%, from Expedia. The revenue growth from the Retailing sector was driven primarily from the acquisition of Cornerstone Brands, Inc. ("Cornerstone") on April 1, 2005. The increase in the Services sector was driven by the strong contribution from LendingTree fueled in part by loan originations, as well as a robust summer concert season impacting results at our Ticketing operating segment. The revenue growth at Expedia was driven primarily by the international merchant hotel business, acquisitions and the air business.

Gross profit increased \$259.1 million, or 33%, reflecting improved results of the Retailing sector, which was driven primarily by the acquisition of Cornerstone, and the Services sector, which was driven by LendingTree Loans and Ticketing. The increase in gross profit also reflects improved operating results of Expedia, driven primarily by the increase in the merchant hotel business as Expedia's merchant business yields higher gross profit per transaction than its agency business.

Selling and marketing expenses increased \$127.4 million, or 43%, primarily reflecting the impact of the Cornerstone acquisition in the Retailing sector and increases at LendingTree, including the impact of acquisitions made in the fourth quarter 2004. Financial Services and Real Estate experienced increased selling and marketing expenses in order to build its brands through the on-line and consumer direct mediums. The increase in selling and marketing expense was also impacted by an increase in international spending at Expedia. Included in the second quarter of 2004 results of Expedia is the reversal of \$6.4 million of selling and marketing expenses associated with the resolution of a contractual dispute. Personals also experienced increased selling and marketing expenses related primarily to the roll out of Match.com's new marketing campaign which began in the first quarter of 2005. As a percentage of revenue, selling and marketing expense increased to 22% for 2005 from 20% in 2004.

General and administrative expenses increased \$63.9 million, or 37%, due primarily to the inclusion of the results of Cornerstone and LendingTree Loans in the 2005 results. In addition, Expedia's general and administrative costs increased primarily as a result of increased headcount and IAC also incurred approximately \$10.3 million of transaction expenses in connection with the Spin-Off in the second quarter of 2005.

Depreciation expense increased \$1.6 million, or 4%, due primarily to capital expenditures of \$143.4 million during 2005 as well as capital expenditures incurred in the second half of 2004, partially offset by certain fixed assets becoming fully depreciated during the period.

Operating Income Before Amortization increased \$60.4 million, or 24%, due primarily to the improved operating results at the Services and Retailing sectors as well as improved results at Expedia.

Operating income increased \$63.3 million, or 58%, reflecting the increase in Operating Income Before Amortization noted above, as well as decreased amortization of intangibles of \$5.7 million, or 7%, and decreased non-cash distribution and marketing expense of \$1.2 million, or 26%. Partially offsetting these decreases was an increase of non-cash compensation of \$4.0 million, or 7%, due primarily to modifications made to certain equity awards in the quarter ended June 30, 2005 as well as new equity awards granted.

Interest income decreased \$2.4 million in 2005 compared with 2004 primarily as a result of decreased interest income earned on the Vivendi Universal Entertainment LLLP ("VUE") preferred securities as these interests were sold on June 7, 2005. Interest expense remained relatively constant in 2005 compared to 2004.

The Company realized a gain in the second quarter of 2005 of \$523.5 million from the sale of its interests in VUE, a joint venture formed in May 2002 between the Company and Vivendi Universal, S.A. ("Vivendi"). On June 7, 2005, the Company sold its common and preferred interests in VUE to NBC Universal. In addition, the Company realized equity income in the second quarter of 2005 of \$43.1 million from VUE compared with \$11.0 million in 2004. Equity income in the second quarter of 2005 represents IAC's share in VUE's first quarter results, which IAC has recorded on a one-quarter lag, and IAC's share of VUE's results from April 1, 2005 through the date of sale.

Equity in the income of unconsolidated subsidiaries and other income (expense) increased by \$13.9 million due primarily to an increase in foreign currency exchange gains of \$10.3 million.

The effective tax rate from continuing operations was 39% in both 2005 and 2004. The 2005 rate is higher than the federal statutory rate of 35% due principally to amortization of non-deductible non-cash compensation, state taxes and non-deductible transaction expenses related to the Spin-Off. The 2004 rate is higher than the federal statutory rate of 35% due principally to non-deductible amortization of intangibles and state taxes.

Minority interest in income from consolidated subsidiaries principally represents minority ownership of certain of Expedia's, Ticketmaster's and HSN International's domestic and international operations.

In the first quarter of 2005, the Company entered into an agreement to sell to ProSiebenSat. 1 Media AG, a German media company, its 48% ownership interest in EUVÍA. This sale closed on June 2, 2005. In addition, during the second quarter of 2005, TV Travel Shop ceased the sale of third-party travel products through its broadcast programming. Accordingly, the results of operations and statement of position of these businesses are presented as discontinued operations for all periods presented. Income (loss) related to these discontinued operations in the second quarter of 2005 and 2004 was \$62.5 million and \$(20.6) million, respectively, net of tax. The 2005 amount includes a tax benefit of \$62.8 million related to the write-off of the Company's investment in TV Travel Shop. Additionally, in 2005 the Company recognized a gain on sale of EUVÍA of \$79.6 million, net of tax.

For the six months ended June 30, 2005 compared to the six months ended June 30, 2004

Revenue increased \$707.6 million, or 24%, primarily driven by revenue increases of \$281.9 million, or 26%, from the Retailing sector, \$251.6 million, or 40%, from the Services sector and \$139.8 million, or 16%, from Expedia. The revenue growth from both the Retailing and Services sector was driven primarily from the acquisition of Cornerstone and the increased contribution from LendingTree, fueled in part by loan originations, respectively. The revenue growth at Expedia was driven primarily by the international merchant hotel business, acquisitions and the air business.

Gross profit increased \$412.1 million, or 27%, reflecting improved operating results at the Retailing sector, Expedia and the Services sector. The increase in gross profit at the Retailing and Services sectors primarily reflects the acquisition of Cornerstone and the contribution of LendingTree, respectively. The increase in gross profit at Expedia is driven primarily by the merchant hotel business as noted above in the three month discussion.

Selling and marketing expenses increased \$161.3 million, or 27%. As a percentage of revenue, selling and marketing expense remained comparable to the prior period at 21%. The increase in selling and marketing expense primarily reflects the impact of the Cornerstone acquisition in the Retailing sector and increases at LendingTree, including the impact of acquisitions made in the fourth quarter of 2004. In addition, Expedia's selling and marketing expense increased year over year as it placed greater emphasis on its international businesses.

General and administrative expenses increased \$111.6 million, or 33%, due primarily to the acquisitions noted above and increased headcount at certain Expedia companies. In addition, the

Company incurred approximately \$16.2 million of transaction expenses in connection with the Spin-Off in 2005.

Depreciation expense increased \$4.1 million, or 5%, due primarily to capital expenditures of \$143.4 million noted above, partially offset by certain fixed assets becoming fully depreciated during the period.

Operating Income Before Amortization increased \$122.6 million, or 28%, due primarily to the improved operating results at Expedia, the Services sector and the Retailing sector.

Operating income increased \$153.8 million, or 103%, reflecting the increase in Operating Income Before Amortization noted above, as well as decreased non-cash compensation of \$14.4 million, or 12%, decreased amortization of intangibles of \$9.6 million, or 6%, and decreased non-cash distribution and marketing expense of \$7.2 million, or 65%. Non-cash compensation expense related primarily to IAC's mergers with its formerly publicly traded subsidiaries and is recorded over the remaining vesting period of the equity awards and therefore this portion of non-cash compensation declines over time as the awards vest.

Interest income increased \$6.4 million in 2005 compared with 2004 as a result of higher interest rates earned during the first half of 2005, partially offset by a decrease in interest income earned on the VUE preferred securities as these interests were sold on June 7, 2005. Interest expense increased \$1.8 million in 2005 compared to 2004 due primarily to the impact of higher interest rates on the interest rate swap arrangements.

The Company realized a gain in 2005 of \$523.5 million from the sale of its interests in VUE on June 7, 2005. In addition, the Company realized equity income from VUE in 2005 of \$22.0 million compared with \$10.7 million in 2004. Equity income in 2005 represents IAC's share in VUE's fourth quarter 2004 and first quarter 2005 results, which IAC had previously consistently recorded on a one-quarter lag, and IAC's share of VUE's results from April 1, 2005 through the date of sale.

Equity in the income of unconsolidated subsidiaries and other income (expense) increased by \$11.6 million due primarily to a \$16.7 million gain on the sale of our minority interest share in the Italian home shopping operations, an increase in foreign currency exchange gains of \$12.1 million, and a \$1.0 million increase in the equity income of unconsolidated subsidiaries of HSN International. Partially offsetting these increases were increased realized losses on the sale of marketable securities of \$16.9 million.

The effective tax rate from continuing operations was 40% in 2005 as compared to 39% in 2004. The 2005 rate is higher than the federal statutory rate of 35% due principally to amortization of non-deductible non-cash compensation, state taxes and non-deductible transaction expenses related to the Spin-Off. The 2004 rate is higher than the federal statutory rate of 35% due principally to non-deductible amortization of intangibles and state taxes.

Minority interest in income from consolidated subsidiaries principally represents minority ownership of certain of Expedia's, Ticketmaster's and HSN International's domestic and international operations.

Income related to discontinued operations in 2005 was \$59.5 million, which includes a tax benefit of \$62.8 million related to the write-off of the Company's investment in TV Travel Shop. Additionally, the Company recognized a gain on sale of EUVÍA of \$79.6 million, net of tax, in 2005. Loss from discontinued operations in 2004 was \$23.0 million, principally due to an adjustment to the deferred tax liability of our investment in Styleclick to reflect minority interest, which resulted in a reduction of a tax benefit recorded in 2002 when the deferred tax liability of our investment in Styleclick was originally reversed.

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

	Three months ended June 30,			Six months ended June 30,		
	2005	2004	Growth	2005	2004	Growth
(Dollars in millions)						
Revenue:						
Retailing:						
U.S.	\$ 667.1	\$ 438.2	52%	\$ 1,165.1	\$ 906.0	29%
International	94.5	79.3	19%	195.4	172.6	13%
Total Retailing	761.6	517.5	47%	1,360.5	1,078.5	26%
Services:						
Ticketing	257.8	195.1	32%	469.1	397.4	18%
Financial Services and Real Estate	130.3	44.6	192%	236.2	84.3	180%
Teleservices	77.0	72.5	6%	154.1	144.3	7%
Home Services	10.6	N/A	N/A	18.3	N/A	N/A
Total Services	475.8	312.2	52%	877.7	626.1	40%
Media & Advertising	11.5	6.9	66%	20.5	12.7	61%
Membership & Subscriptions:						
Vacations	67.8	63.7	6%	142.8	133.1	7%
Personals	61.2	48.5	26%	115.3	97.3	19%
Discounts	33.1	34.0	(3%)	57.7	60.3	(4%)
Intra-sector elimination	(0.7)	(0.6)	NM	(0.7)	(0.6)	NM
Total Membership & Subscriptions	161.3	145.6	11%	315.1	290.1	9%
Expedia, Inc.	555.0	487.0	14%	1,040.1	900.2	16%
Emerging Businesses	6.2	0.2	2,422%	10.0	0.2	3,946%
Intersegment elimination	(11.3)	(6.2)	(83%)	(20.4)	(12.2)	(68%)
Total	\$ 1,960.2	\$ 1,463.3	34%	\$ 3,603.4	\$ 2,895.8	24%

Three months ended June 30,

Six months ended June 30,

	Three months ended June 30,			Six months ended June 30,		
	2005	2004	Growth	2005	2004	Growth
(Dollars in millions)						
Operating Income (Loss):						
Retailing:						
U.S.	\$ 43.5	\$ 28.3	54%	\$ 86.8	\$ 56.7	53%
International	(0.6)	0.1	NM	1.9	1.0	87%
Total Retailing	42.9	28.4	51%	88.7	57.7	54%
Services:						
Ticketing	55.3	40.5	37%	95.3	81.1	18%
Financial Services and Real Estate	6.2	(1.2)	NM	2.9	(4.7)	NM
Teleservices	2.4	4.2	(43%)	6.6	7.4	(10%)
Home Services	2.7	N/A	N/A	5.2	N/A	N/A
Total Services	66.6	43.5	53%	110.0	83.8	31%
Media & Advertising	1.8	(16.0)	NM	0.9	(32.8)	NM
Membership & Subscriptions:						
Vacations	19.5	15.2	28%	46.3	35.0	32%
Personals	9.5	7.8	22%	13.9	10.7	31%
Discounts	(14.3)	(13.7)	(4%)	(27.9)	(24.5)	(14%)
Total Membership & Subscriptions	14.7	9.3	59%	32.3	21.1	53%
Expedia, Inc.	141.2	120.0	18%	248.8	186.5	33%
Emerging Businesses	(3.5)	(1.3)	(163%)	(6.1)	(2.1)	(197%)
Corporate and other	(91.2)	(74.5)	(22%)	(170.8)	(164.3)	(4%)
Total	\$ 172.6	\$ 109.3	58%	\$ 303.7	\$ 150.0	103%

Three months ended June 30,

Six months ended June 30,

	2005	2004	Growth	2005	2004	Growth
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(Dollars in millions)

Operating Income Before Amortization:

Retailing:						
U.S.	\$ 59.0	\$ 41.6	42%	\$ 115.5	\$ 83.2	39%
International	(0.3)	0.4	NM	2.5	1.7	53%
Total Retailing	58.7	42.0	40%	118.0	84.8	39%
Services:						
Ticketing	62.7	46.7	34%	109.7	93.5	17%
Financial Services and Real Estate	15.0	5.6	166%	24.7	8.7	183%
Teleservices	2.4	4.2	(43%)	6.6	7.4	(10%)
Home Services	3.6	N/A	N/A	5.6	N/A	N/A
Total Services	83.7	56.5	48%	146.7	109.6	34%
Media & Advertising	1.9	(4.3)	NM	1.0	(9.0)	NM
Membership & Subscriptions:						
Vacations	25.8	21.5	20%	58.9	47.6	24%
Personals	10.4	9.5	9%	15.9	15.9	0%
Discounts	(12.7)	(11.6)	(9%)	(24.7)	(20.2)	(22%)
Total Membership & Subscriptions	23.6	19.4	21%	50.1	43.2	16%
Expedia, Inc.	177.4	155.4	14%	317.4	257.0	23%
Emerging Businesses	(3.4)	(1.1)	(221%)	(5.9)	(1.8)	(231%)
Corporate and other	(33.6)	(20.1)	(68%)	(62.5)	(41.8)	(50%)
Total	\$ 308.3	\$ 247.9	24%	\$ 564.7	\$ 442.1	28%

Operating Income Before Amortization as a percentage of revenue

16% 17%

16% 15%

Retailing

Revenues, Operating Income Before Amortization and operating income for the Retailing sector increased in the three and six months ended June 30, 2005 due primarily to the acquisition of Cornerstone Brands, Inc. ("Cornerstone"), a portfolio of leading print catalogs and online retailing sites that sell home products and leisure and casual apparel, on April 1, 2005.

U.S.

For the three months ended June 30, 2005 compared to the three months ended June 30, 2004

Revenue grew 52% to \$667.1 million, primarily driven by the acquisition of Cornerstone on April 1, 2005. HSN U.S. had a disappointing second quarter with modest year over year sales growth as performance was impacted by disappointing sales productivity in several merchandise categories and certain product mix effects. For HSN's core business in the U.S., revenue grew 2% as a result of an increase in units shipped and an increase in average price point, partially offset by a slight increase in return rates.

Operating Income Before Amortization grew 42% to \$59.0 million, due primarily to the acquisition of Cornerstone and an increase in gross profit margins by 100 basis points as the Company's catalog business typically enjoys higher gross profit margins than its retailing operations. Excluding the acquisition of Cornerstone, the Company's gross profit margins decreased 60 basis points due primarily to shifts in product mix as compared to the prior period, increased shipping and handling promotions and higher freight costs, all of which were partially offset by a \$5.0 million favorable adjustment related to certain accrued liabilities.

Operating income grew 54% to \$43.5 million due primarily to the increase in Operating Income Before Amortization described above, partially offset by a \$2.3 million increase in the amortization of intangibles.

For the six months ended June 30, 2005 compared to the six months ended June 30, 2004

Revenue grew 29% to \$1.2 billion largely as a result of the acquisition of Cornerstone in April 2005. Excluding the results of Cornerstone, revenue grew 6% as a result of increased units shipped, increased average price point and declines in return rates.

Operating Income Before Amortization grew 39% to \$115.5 million, due primarily to the acquisition of Cornerstone, growth in existing revenue and an increase in gross profit margins by 120 basis points due primarily to the acquisition of Cornerstone, as the company's catalog sales typically enjoy higher gross profit margins as noted above. Excluding the results of Cornerstone, gross profit margins increased 30 basis points, impacted in part by the \$5.0 million favorable adjustment to accrued liabilities noted above, partially offset by product mix changes and higher freight costs.

Operating income grew 53% to \$86.8 million due to the increase in Operating Income Before Amortization described above.

International

For the three months ended June 30, 2005 compared to the three months ended June 30, 2004

Revenue grew 19% to \$94.5 million in U.S. dollars, or 14% excluding the benefit of foreign exchange, due primarily to increased revenues at HSE-Germany, driven in part by growth in its online business and continued decline in return rates. Negatively impacting the 2004 results was weakness in the Wellness product line.

Operating Income Before Amortization declined to a loss of \$0.3 million and operating income (loss) declined to a loss of \$0.6 million, due to an unfavorable arbitration settlement in connection with a former Spanish language service.

For the six months ended June 30, 2005 compared to the six months ended June 30, 2004

Revenue grew 13% to \$195.4 million in U.S. dollars, or 8% on a local currency basis, due to the revenue factors described above. Operating Income Before Amortization and operating income grew 53% and 87% to \$2.5 million and \$1.9 million, respectively, due to the growth in HSE-Germany revenue partially offset by the unfavorable arbitration settlement noted above.

In the first quarter of 2005, the Company entered into an agreement to sell to ProSiebenSat. 1 Media AG, a German media company, its 48% ownership interest in EUVÍA. The sale closed on June 2, 2005. Accordingly, the results of operations and statement of position of EUVÍA are presented as discontinued operations for all periods presented.

Services

Revenues, Operating Income Before Amortization and operating income for the Services sector increased in the three and six months ended June 30, 2005 driven primarily to the increased contribution from LendingTree and higher worldwide Ticketing sales.

Revenue includes \$10.0 million and \$5.0 million for the three months ended June 30, 2005 and 2004, respectively, and \$18.2 million and \$10.3 million for the six months ended June 30, 2005 and 2004, respectively, for services provided to other IAC businesses.

In addition to the segment results discussed below, the Services sector included the results of the Teleservices and Home Services segments as noted on pages 30 through 32.

Ticketing

For the three months ended June 30, 2005 compared to the three months ended June 30, 2004

Revenue grew 32% to \$257.8 million driven by substantial increases in both domestic and international revenue as total worldwide tickets sold increased by 32% to 30.8 million. Domestic revenues increased by 28% due to a considerably stronger summer concert season as compared with the prior year and a 5% increase in average revenue per ticket. The increase in average domestic revenue per ticket resulted from higher convenience and processing fees. International revenue increased by 45%, or 39% excluding the benefit of foreign exchange, due primarily to Ticketmaster's purchase of the remaining interest in its Australian joint venture in April 2005, the acquisitions in Sweden and Finland in the second half of 2004, and increased ticket sales in Canada and Ireland. These effects on international revenue were partially offset by a lower revenue per ticket due to geographic mix and the absence of license income related to the Athens 2004 Summer Olympics.

Operating Income Before Amortization increased 34% to \$62.7 million reflecting the higher revenue growth described above, offset by higher domestic ticket royalties as a percentage of revenue and increased costs associated with the development and support of ticketing technology. We expect to continue to experience higher operating costs in certain areas, including the development and support of ticketing technology; domestic ticketing royalties are also expected to continue to increase as a percentage of revenue.

Operating income increased 37% to \$55.3 million reflecting the results discussed above offset partially by a \$1.2 million increase in the amortization of intangibles.

In addition, the Company expects the resolution of the NHL lockout to positively impact ticket sales in the last half of 2005.

For the six months ended June 30, 2005 compared to the six months ended June 30, 2004

Revenue grew 18% to \$469.1 million reflecting a 17% increase in the number of worldwide tickets sold. The increase in the number of tickets sold is due primarily to the strength in the U.S. summer concert season in 2005. International revenue increased by 35%, or 29% excluding the benefit of foreign exchange, due to the factors described above in the three-month discussion.

Operating Income Before Amortization and operating income increased 17% and 18% to \$109.7 million and \$95.3 million, respectively, reflecting the increase in revenues noted above, partially offset by higher domestic ticket royalties as a percentage of revenue and increased costs associated with the development and support of ticketing technology. We believe over time we can offset these increases with improved operating leverage, as we foresee volume growth domestically and internationally for the balance of the year. Further, operating income was negatively impacted by a \$2.2 million increase in the amortization of intangibles.

Financial Services and Real Estate

For the three months ended June 30, 2005 compared to the three months ended June 30, 2004

Revenue grew 192% to \$130.3 million driven primarily by 194% higher revenue per transaction, reflecting LendingTree's strategy to close in its own name a portion of the loans sourced through the LendingTree network which began in December 2004 with the acquisition of Home Loan Center (now known as LendingTree Loans). The dollar value of closed loans in the period increased 7% to \$8.4 billion in 2005, led by refinance activity of \$4.2 billion, purchase mortgages of \$2.3 billion and home equity loans of \$1.6 billion. The dollar value of closed loans in 2004 was \$7.8 billion, including refinance mortgages of \$4.3 billion, purchase mortgages of \$1.7 billion and home equity loans of \$1.5 billion. Revenue from the real estate businesses grew, driven by a higher number of referrals and closings, which partially benefited from the acquisition of iNest and the integration of ServiceMagic's real estate business.

Operating Income Before Amortization increased 166% to \$15.0 million primarily due to the growth in revenues reflecting in part higher revenue per closing, partially offset by increased marketing costs and customer rebates for real estate as well as increases in overhead costs incurred as a result of acquisitions.

Operating income improved to \$6.2 million from an operating loss of \$1.2 million in the three months ended June 30, 2004 primarily due to the increase in Operating Income Before Amortization described above, partially offset by a \$2.2 million increase in amortization of intangibles.

For the six months ended June 30, 2005 compared to the six months ended June 30, 2004

Revenue grew 180% to \$236.2 million driven primarily by the factors described above. The dollar value of closed loans in the period increased 10% to \$15.6 billion in 2005, led by refinance activity of \$8.4 billion, purchase mortgages of \$3.9 billion and home equity loans of \$2.8 billion. The dollar value of closed loans in 2004 was \$14.1 billion, including refinance mortgages of \$7.7 billion, home equity loans of \$2.9 billion and purchase mortgages of \$2.9 billion.

Operating Income Before Amortization increased 183% to \$24.7 million reflecting the growth in revenues described above offset partially by increased marketing costs and customer rebates for real estate as well as increases in overhead costs incurred as a result of acquisitions.

Operating income improved to \$2.9 million from an operating loss of \$4.7 million in 2004 primarily due to the increase in Operating Income Before Amortization described above, partially offset by an \$8.8 million increase in the amortization of intangibles.

Media & Advertising

The Media & Advertising sector will include the results of Ask Jeeves beginning in the third quarter of 2005.

For the three months ended June 30, 2005 compared to the three months ended June 30, 2004

Revenues grew 66% to \$11.5 million, primarily due to increased revenues at CitySearch. CitySearch's revenues grew 71% over the prior year due primarily to strength in its Pay-For-Performance business and increased traffic.

Operating Income Before Amortization increased by \$6.2 million resulting from lower operating costs as Citysearch continues to benefit from higher revenues along with cost cutting initiatives.

Operating income improved to \$1.8 million from an operating loss of \$16.0 million in 2004 reflecting the increase in the Operating Income Before Amortization described above as well as a \$11.7 million decrease in the amortization of intangibles which resulted from certain intangibles becoming fully amortized in 2004. This was Citysearch's first ever profitable quarter.

For the six months ended June 30, 2005 compared to the six months ended June 30, 2004

Revenues grew 61% to \$20.5 million, primarily due to increased revenues at CitySearch. CitySearch's revenues grew 61% over the prior year due primarily to an increase in advertising revenues attributable to the addition of new Pay-For-Performance merchants and increased traffic.

The Operating Income Before Amortization loss decreased from 2004 as a result of increased revenues and reduced costs.

Operating income improved primarily due to the increase in Operating Income Before Amortization described above, as well as a \$23.3 million decrease in the amortization of intangibles as described above.

Membership & Subscriptions

Revenues, Operating Income Before Amortization and operating income for the Membership & Subscriptions sector increased for the three and six months ended June 30, 2005 due primarily to membership and subscriber growth at Vacations and Personals, respectively.

In addition to the segment results discussed below, the Membership & Subscriptions sector included results from the Discounts segment as noted on pages 30 through 32.

Vacations

For the three months ended June 30, 2005 compared to the three months ended June 30, 2004

Vacations grew revenues by 6% to \$67.8 million, primarily driven by increases in membership revenue, higher vacation confirmations and higher average fees. Total active members increased 6% to 1.7 million.

Operating Income Before Amortization and operating income increased 20% and 28% to \$25.8 million and \$19.5 million, respectively, due primarily to the higher revenues noted above, lower selling and marketing expenses and a higher percentage of online transactions, partially offset by higher general and administrative expenses.

For the six months ended June 30, 2005 compared to the six months ended June 30, 2004

Vacations grew revenues, Operating Income Before Amortization and operating income by 7%, 24% and 32%, respectively, due primarily to the factors described above.

Personals

For the three months ended June 30, 2005 compared to the three months ended June 30, 2004

Revenue grew 26% to \$61.2 million, reflecting a 13% increase in paid subscribers to 1.1 million and an increase in the average revenue per paid subscriber due to higher package prices implemented in early 2005. International subscribers grew 23% over the prior year driven by continued focus on its international expansion efforts, excluding declines at uDate of 26%.

Operating Income Before Amortization increased 9% to \$10.4 million impacted by increased revenues noted above partially offset by higher customer acquisition costs relating primarily to the company's new marketing campaign which began in the first quarter of 2005.

The increase in operating income of 22% to \$9.5 million reflects an increase in Operating Income Before Amortization described above and a \$0.9 million decrease in the amortization of intangibles which resulted from certain intangibles becoming fully amortized in 2004 and early 2005.

For the six months ended June 30, 2005 compared to the six months ended June 30, 2004

Revenue grew 19% to \$115.3 million, primarily driven by the factors described above. Operating Income Before Amortization for the first half of 2005 was relatively flat as a result of increased revenues being offset by higher customer acquisition costs relating primarily to the company's new marketing campaign noted above.

The increase in operating income of 31% to \$13.9 million reflects a \$0.7 million decrease in non-cash distribution and marketing expense and a \$2.6 million decrease in the amortization of intangibles which resulted from certain intangibles becoming fully amortized in 2004 and early 2005.

Expedia, Inc.

For the three months ended June 30, 2005 compared to the three months ended June 30, 2004

Revenue grew 14% to \$555.0 million, primarily driven by the international merchant hotel business, the results from acquisitions including Premier Getaway, eLong and TripAdvisor, and the air business.

Revenue from international websites increased 58%, or 52% excluding the impact of foreign exchange, to \$115.7 million in 2005 from \$73.4 million in 2004. The United Kingdom, German, France and Canadian websites contributed to the continued international growth in the merchant hotel business and air business. The acquisition of eLong also contributed to international results.

Merchant hotel revenue increased 9% driven primarily by an increase in merchant hotel room nights stayed, as well as an increase in revenue per room night. Merchant hotel room nights stayed, including rooms delivered as a component of packages, increased 8% to 9.0 million, reflecting continued growth in demand from our international websites. Revenue per room remained flat due primarily to a 5% increase in average daily room rates, offset by declines in merchant hotel raw margins (defined as merchant hotel net revenue as a percent of gross bookings). The merchant hotel business continues to benefit from growth in the packages business.

Revenue from the air business increased 7% from 2004, driven primarily from a 21% increase in air tickets sold, partially offset by an 11% decline in air revenue per ticket.

Expedia's domestic air and merchant hotel businesses continue to operate in a challenging and competitive environment, due primarily to increased competition from third party distributors, increased promotion by suppliers of their own websites and higher overall occupancy rates and load factors. This environment is generally expected to continue.

Revenue margins (defined as net revenue as a percent of gross bookings) decreased by 144 basis points due primarily to lower air revenue per ticket, a higher mix of agency business and lower merchant hotel raw margins. In addition, increased fare prices per air ticket increased gross bookings without a corresponding increase in relatively fixed air revenues. Operating Income Before Amortization margin increased 5 basis points for the second quarter versus the prior year, and 135 basis points excluding the impact of a one-time reversal of a legal settlement benefiting second quarter 2004 results.

Operating Income Before Amortization grew 14% to \$177.4 million due primarily to increased revenues as discussed above, and a lower selling and marketing expense as a percentage of revenue, partially offset by lower gross margins. Selling and marketing expense increased 10%, driven by a 60% increase in international selling and marketing expense as Expedia focuses resources on building its international presence and recognition. Included in the second quarter of 2004 is the reversal of \$6.4 million of selling and marketing expenses associated with the resolution of a contractual dispute. Expedia expects sales and marketing expense to increase over time due to continued expansion of its

international businesses, which have a higher sales and marketing cost relative to revenue due to their comparatively early stages of development, as well as increases in search-related costs, increased marketing volume and higher costs of traffic acquisition online. In addition, Expedia expects general and administrative expenses to increase over time due to increased headcount and costs to be incurred as a stand-alone public company and due to increases in product development costs.

Operating income grew 18% to \$141.2 million due to the increase in Operating Income Before Amortization described above as well as a decrease in non-cash distribution and marketing expense of \$1.2 million.

For the six months ended June 30, 2005 compared to the six months ended June 30, 2004

Revenue growth was primarily driven by the same factors that drove second quarter growth described above. Merchant hotel revenue increased 8% driven primarily by an increase in merchant hotel room nights stayed, as well as an increase in revenue per room night. Merchant hotel room nights stayed, including rooms delivered as a component of packages, increased 7% to 16.3 million, reflecting continued growth in demand from our international websites. Revenue per room night increased 3% due primarily to increases in average daily room rates, partially offset by a decline in merchant hotel raw margins. Revenue from international websites increased 59%, or 54% excluding the impact of foreign exchange, to \$215.3 million in 2005 from \$135.3 million in 2004. Revenue from the air business increased 11% from 2004, driven primarily from a 22% increase in air tickets sold, partially offset by a decline in air revenue per ticket.

Operating Income Before Amortization grew 23% to \$317.4 million due primarily to increased revenues as discussed above and lower selling and marketing expense as a percentage of revenue. Selling and marketing expense increased 7%, driven by a 60% increase in international selling and marketing expense.

Operating income grew 33% to \$248.8 million due to the increase in Operating Income Before Amortization described above as well as a decrease in non-cash distribution and marketing expense of \$5.9 million.

Corporate and Other

For the three months ended June 30, 2005 compared to the three months ended June 30, 2004

Corporate operating expenses for the second quarter of 2005 were \$91.2 million compared with \$74.5 million for the same period in 2004, of which \$57.5 million and \$54.4 million relate to non-cash compensation in 2005 and 2004, respectively. Non-cash compensation relates primarily to expenses recognized with respect to unvested stock options, warrants and restricted stock units assumed in acquisitions, principally those assumed in the buy-ins of Ticketmaster, Hotels.com and Expedia.com, as well as costs related to equity awards granted by IAC subsequent to January 1, 2003. This non-cash compensation is recorded over the remaining vesting period of the equity awards and the aggregate amount of this expense will decline as the awards vest. In future periods, non-cash compensation is expected to include charges related to additional equity awards granted by IAC, charges related to the Ask Jeeves' acquisition as well as the Spin-Off. In addition, Corporate operating expenses include \$9.1 million related to transaction expenses incurred in the second quarter of 2005 associated with the Spin-Off.

In conjunction with preparing for the Spin-Off and the upcoming adoption of the Financial Accounting Standards Board Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payments," the Company is conducting an assessment of certain assumptions used in determining the expense related to stock-based compensation. The assessment is expected to be completed by the end of the third quarter and is expected to result in a favorable adjustment to non-cash compensation expense.

For the six months ended June 30, 2005 compared to the six months ended June 30, 2004

Corporate operating expenses in 2005 were \$170.8 million compared with \$164.3 million in 2004, of which \$108.3 million and \$122.5 million relate to non-cash compensation in 2005 and 2004, respectively. In addition, Corporate operating expenses include \$14.0 million related to transaction expenses incurred in the first half of 2005 associated with the Spin-Off.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2005, the Company had \$2.6 billion of cash and cash equivalents and restricted cash and cash equivalents and \$2.1 billion of marketable securities on hand, including \$264.0 million in funds representing amounts equal to the face value of tickets sold by Ticketing on behalf of its clients and \$758.3 million in combined deferred merchant bookings and deferred revenue at Expedia.

Net cash provided by operating activities was approximately \$915.5 million in 2005 and \$964.2 million in 2004. Cash provided by operations in 2005 was negatively impacted by increases related to loans available for sale at LendingTree Loans which were not included in the prior year period, increases in accounts receivable at Expedia and Retailing, higher cash taxes paid and higher inventory. Partially offsetting these declines were higher earnings, an increased contribution to working capital from deferred merchant bookings and deferred revenue at Expedia and Ticketing client cash. For the six months ended June 30, 2005 and 2004, cash flows provided by deferred merchant bookings and deferred revenue at Expedia were \$391.0 million and \$292.0 million, respectively. Ticketing client cash contributed \$120.2 million to the change in operating cash flows in 2005 compared with \$50.2 million in 2004, respectively, primarily due to timing of settlements with venues. In the merchant hotel business, Expedia.com and Hotels.com receive cash from customers on hotel and air bookings before the stay or flight has occurred. These amounts are classified on our balance sheet as deferred merchant bookings. The payment to the suppliers related to these bookings is not made until approximately one week after booking for air travel and, for all other merchant bookings, after the customer's use and subsequent billing from the supplier. Therefore, especially for the hotel business, which is the majority of our merchant bookings, there is generally a significant period of time from the receipt of the cash from the customers to the payment to the suppliers. There tends to be a seasonal element to the inventory balances at the Retailing sector and the Discounts segment as inventory tends to be higher in the third quarter in anticipation of the fourth quarter selling season. At June 30, 2005, inventory, net of reserves, increased \$147.1 million to \$388.1 million from \$241.0 million at December 31, 2004 due in part to the acquisition of Cornerstone as well as increases at HSN U.S. and HSE-Germany. In addition, the net cash tax payments impacting operating cash flows were \$67.5 million in 2005 compared with \$7.0 million in 2004.

Cash provided by investing activities in 2005 of \$1.5 billion resulted from the proceeds generated from the sale of IAC's common and preferred interests in VUE of \$1.9 billion, proceeds from the sale of EUVÍA of \$183.0 million and net proceeds of \$291.0 million generated from the sale of marketable securities, partially offset by acquisitions, net of cash, of \$712.4 million and capital expenditures of \$143.4 million. Cash acquisitions in 2005 primarily relate to Cornerstone. Cash used in investing activities in 2004 of \$458.9 million relates primarily to acquisitions, net of cash, of \$286.9 million and capital expenditures of \$99.6 million. Cash acquisitions in 2004 primarily relate to TripAdvisor and Egencia.

Cash used in financing activities in 2005 of \$973.6 million was primarily due to the purchase of treasury stock of \$1.2 billion, partially offset by increased borrowings under various warehouse lines of credit of \$217.2 million at LendingTree Loans and proceeds from the issuance of common stock pursuant to stock option exercises of \$29.0 million. Cash used in financing activities in 2004 of \$186.0 million was primarily due to the purchase of treasury stock of \$249.5 million partially offset by proceeds from the issuance of common stock pursuant to stock option exercises of \$65.9 million.

As of June 30, 2005, the Company has \$1.6 billion in short and long-term obligations, of which \$789.9 million, consisting primarily of \$360.8 million of 1998 Senior Notes and various warehouse lines of credit, are classified as current. The warehouse lines of credit are used by LendingTree Loans to fund mortgage and home equity loans. Interest rates under these lines of credit fall within a range of 30-day LIBOR plus 100-245 basis points, depending on the underlying quality of the loans in the borrowing base. Under the terms of these lines of credit, LendingTree Loans is required to maintain

various financial and other covenants. The balance of these warehouse lines of credit at June 30, 2005 was \$416.6 million. IAC anticipates that the repayment of the current maturities related to the 1998 Senior Notes will come from current cash balances. Repayments of the warehouse lines of credit will come from the sale of loans held for sale by LendingTree Loans.

In November 2004, IAC announced that its Board of Directors authorized the repurchase of up to 80 million shares of IAC common stock. This authorization was in addition to the 22.9 million shares IAC had remaining under the two repurchase authorizations announced during 2003, which initially covered a total of 80 million shares. Pursuant to the Board's previous authorizations, during the six months ended June 30, 2005, IAC purchased 52.8 million shares of IAC common stock for aggregate consideration of \$1.2 billion. At June 30, 2005, IAC had 50.1 million shares remaining in its authorizations. The shares repurchased in 2005 effectively offset a substantial portion of the dilution which resulted from the Ask Jeeves acquisition. Going forward, IAC may purchase shares on an opportunistic basis over an indefinite period of time, on the open market or through private transactions, depending on those factors IAC deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

On June 7, 2005 IAC completed a transaction with NBC Universal in which it sold its interests in VUE. After paying applicable taxes on the transaction, IAC expects to net approximately \$1.0 billion in cash. As part of the consideration in this transaction, IAC received 56.6 million IAC shares valued at \$1.4 billion.

IAC anticipates that it will need to invest in the development and expansion of its overall operations. The Company may make a number of acquisitions, which could result in the reduction of its cash balance or the incurrence of debt. Furthermore, future capital expenditures may be higher than current amounts over the next several years. In connection with the Spin-Off, holders of over 99% of IAC's convertible preferred stock elected to receive \$50 in cash per share plus accrued and unpaid dividends in return for their shares. This substantial redemption of the IAC preferred stock for \$656 million will be paid upon completion of the Spin-Off and is expected to be funded by cash on hand.

Future demand for our products and services may be impacted by future economic and political developments. As previously discussed, a significant amount of operating cash flow is from increased deferred merchant bookings and the period between receipt of cash from the customer and payment of cash to the vendor. Once the Spin-Off becomes effective, the operating cash flows generated from the increased deferred merchant bookings will no longer be a factor in IAC's cash flow from operations. We believe that our financial situation would enable us to absorb a significant potential downturn in business. As a result, in management's opinion, available cash, internally generated funds and available borrowings will provide sufficient capital resources to meet IAC's foreseeable needs.

Upon completion of the Spin-Off, Expedia will transfer to IAC all cash in excess of \$100 million, excluding the cash held by eLong, and all intercompany receivable and payable balances will be extinguished.

As of June 30, 2005, IAC would have had approximately \$1.8 billion in net cash and marketable securities, pro forma for the acquisition of Ask Jeeves (including the assumption of cash and convertible debt), the Spin-Off, the redemption of substantially all of IAC's convertible preferred, taxes to be paid in connection with IAC's sale of its VUE interests, the maturity of IAC's 6³/₄% Senior Notes, and excluding LendingTree Loans' debt that is non-recourse to IAC.

IAC'S PRINCIPLES OF FINANCIAL REPORTING

IAC reports Operating Income Before Amortization as a supplemental measure to 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 generally have access to 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. We provide and 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: (1) amortization of non-cash distribution, marketing and compensation expense, (2) amortization of intangibles and goodwill impairment, if applicable, (3) pro forma adjustments for significant acquisitions, if applicable and (4) one-time items, if applicable. 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 income statement of certain expenses, including non-cash compensation, non-cash payments to partners, and acquisition-related accounting. IAC endeavors to compensate for the limitations of the non-GAAP measure presented by providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items and adjustments, including quantifying such items, to derive the non-GAAP measure.

Non-Cash Expenses That Are Excluded From Our Non-GAAP Measures

Amortization of non-cash compensation expense consists of restricted stock and options expense, which relates mostly to unvested options assumed by IAC in the Ticketmaster, Hotels.com and Expedia mergers as well as expense associated with grants of restricted stock units for compensation purposes. These expenses are not paid in cash and we include the related shares in our fully diluted shares outstanding.

Amortization of non-cash distribution and marketing expense consists mainly of Hotels.com performance warrants issued to obtain distribution and non-cash advertising secured from Universal Television as part of the VUE transaction. The Hotels.com warrants were principally issued as part of its initial public offering, and we do not anticipate replicating these arrangements. The non-cash advertising from Universal has historically been used for the benefit of Expedia, which runs television advertising primarily on the USA and Sci Fi cable channels without any cash cost. Ticketmaster and Match.com also recognized non-cash distribution and marketing expense related to barter arrangements, which expired in March 2004, for distribution secured from third parties, whereby advertising was provided by Ticketmaster and Match.com to a third party in return for distribution over the third party's network. The advertising provided was secured by IAC through an agreement with Universal as part of the VUE transaction. Sufficient advertising has been secured to satisfy existing obligations.

Amortization of intangibles is a non-cash expense relating primarily to acquisitions. At the time of an acquisition, the intangible assets of the acquired company, such as supplier contracts and customer relationships, are valued and amortized over their estimated lives. While it is likely that we will have significant intangible amortization expense as we continue to acquire companies, we believe that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they

were part of transaction costs and will not be replaced with cash costs when the intangibles are fully amortized.

Reconciliation of Operating Income Before Amortization

The following table is a reconciliation of Operating Income Before Amortization to operating income and net earnings available to common shareholders for the three months ended March 31, 2005 and 2004.

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
	(In thousands)			
Operating Income Before Amortization	\$ 308,246	\$ 247,856	\$ 564,746	\$ 442,143
Amortization of non-cash distribution and marketing expense	(3,485)	(4,733)	(3,917)	(11,072)
Amortization of non-cash compensation expense	(59,382)	(55,342)	(109,910)	(124,310)
Amortization of intangibles	(72,828)	(78,511)	(147,204)	(156,808)
Operating income	172,551	109,270	303,715	149,953
Interest income	45,741	48,126	99,750	93,334
Interest expense	(18,946)	(19,457)	(40,609)	(38,850)
Gain on sale of VUE	523,487	—	523,487	—
Equity in income of VUE	43,126	11,038	21,960	10,686
Equity in income of unconsolidated affiliates and other	19,080	5,195	24,000	12,370
Income tax expense	(304,327)	(59,417)	(376,039)	(88,241)
Minority interest in income of consolidated subsidiaries	(1,469)	(974)	(1,820)	(1,485)
Gain on sale of EUVÍA, net of tax	79,648	—	79,648	—
Income (loss) from discontinued operations, net of tax	62,492	(20,585)	59,502	(23,044)
Preferred dividends	(3,263)	(3,262)	(6,526)	(6,526)
Net earnings available to common shareholders	\$ 618,120	\$ 69,934	\$ 687,068	\$ 108,197

RECONCILIATION OF NON-GAAP MEASURE

The following table reconciles Operating Income Before Amortization to operating income (loss) for the Company's reporting segments and to net earnings available to common shareholders in total (in millions, rounding differences may occur):

	For the three months ended June 30, 2005:		
	Operating Income Before Amortization	Amortization of non-cash items	Operating income (loss)
Retailing:			
U.S.	\$ 59.0	\$ (15.5)	\$ 43.5
International	(0.3)	(0.3)	(0.6)
Total Retailing	58.7	(15.8)	42.9
Services:			
Ticketing	62.7	(7.4)	55.3
Financial Services and Real Estate	15.0	(8.8)	6.2
Teleservices	2.4	—	2.4
Home Services	3.6	(0.9)	2.7
Total Services	83.7	(17.1)	66.6
Media & Advertising	1.9	(0.1)	1.8
Membership & Subscriptions:			
Vacations	25.8	(6.3)	19.5
Personals	10.4	(0.9)	9.5
Discounts	(12.7)	(1.6)	(14.3)
Total Membership & Subscriptions	23.6	(8.8)	14.7
Expedia, Inc.	177.4	(36.2)	141.2
Emerging Businesses	(3.4)	(0.1)	(3.5)
Corporate and other	(33.6)	(57.5)	(91.2)
Total	\$ 308.2	\$ (135.7)	\$ 172.6
Other income, net			612.5
Earnings from continuing operations before income taxes and minority interest			785.0
Income tax expense			(304.3)
Minority interest in income of consolidated subsidiaries			(1.5)
Earnings from continuing operations			479.2
Gain on sale of EUVÍA, net of tax			79.6
Income from discontinued operations, net of tax			62.5
Earnings before preferred dividends			621.4
Preferred dividends			(3.3)
Net earnings available to common shareholders			\$ 618.1

	Operating Income Before Amortization	Amortization of non-cash items	Operating income (loss)
Retailing:			
U.S.	\$ 41.6	\$ (13.2)	\$ 28.3
International	0.4	(0.3)	0.1
Total Retailing	42.0	(13.6)	28.4
Services:			
Ticketing	46.7	(6.2)	40.5
Financial Services and Real Estate	5.6	(6.8)	(1.2)
Teleservices	4.2	—	4.2
Home Services	N/A	N/A	N/A
Total Services	56.5	(13.0)	43.5
Media & Advertising	(4.3)	(11.7)	(16.0)
Membership & Subscriptions:			
Vacations	21.5	(6.3)	15.2
Personals	9.5	(1.7)	7.8
Discounts	(11.6)	(2.1)	(13.7)
Total Membership & Subscriptions	19.4	(10.2)	9.3
Expedia, Inc.	155.4	(35.4)	120.0
Emerging Businesses	(1.1)	(0.3)	(1.3)
Corporate and other	(20.1)	(54.4)	(74.5)
Total	\$ 247.9	\$ (138.6)	\$ 109.3
Other income, net			44.9
Earnings from continuing operations before income taxes and minority interest			154.2
Income tax expense			(59.4)
Minority interest in income of consolidated subsidiaries			(1.0)
Earnings from continuing operations			93.8
Loss from discontinued operations, net of tax			(20.6)
Earnings before preferred dividends			73.2
Preferred dividends			(3.3)
Net earnings available to common shareholders			\$ 69.9

For the six months ended June 30, 2005:

	Operating Income Before Amortization	Amortization of non-cash items	Operating income (loss)
Retailing:			
U.S.	\$ 115.5	\$ (28.7)	\$ 86.8
International	2.5	(0.7)	1.9
Total Retailing	118.0	(29.4)	88.7
Services:			
Ticketing	109.7	(14.4)	95.3
Financial Services and Real Estate	24.7	(21.8)	2.9
Teleservices	6.6	—	6.6
Home Services	5.6	(0.5)	5.2
Total Services	146.7	(36.7)	110.0
Media & Advertising	1.0	(0.1)	0.9
Membership & Subscriptions:			
Vacations	58.9	(12.6)	46.3
Personals	15.9	(1.9)	13.9
Discounts	(24.7)	(3.3)	(27.9)
Total Membership & Subscriptions	50.1	(17.8)	32.3
Expedia, Inc.	317.4	(68.6)	248.8
Emerging Businesses	(5.9)	(0.2)	(6.1)
Corporate and other	(62.6)	(108.3)	(170.8)
Total	\$ 564.7	\$ (261.0)	\$ 303.7
Other income, net			628.6
Earnings from continuing operations before income taxes and minority interest			932.3
Income tax expense			(376.0)
Minority interest in income of consolidated subsidiaries			(1.8)
Earnings from continuing operations			554.4
Gain on sale of EUVÍA, net of tax			79.6
Income from discontinued operations, net of tax			59.5
Earnings before preferred dividends			693.6
Preferred dividends			(6.5)
Net earnings available to common shareholders			\$ 687.1

	Operating Income Before Amortization	Amortization of non-cash items	Operating income (loss)
Retailing:			
U.S.	\$ 83.2	\$ (26.5)	\$ 56.7
International	1.7	(0.7)	1.0
Total Retailing	84.8	(27.1)	57.7
Services:			
Ticketing	93.5	(12.4)	81.1
Financial Services and Real Estate	8.7	(13.4)	(4.7)
Teleservices	7.4	—	7.4
Home Services	N/A	N/A	N/A
Total Services	109.6	(25.8)	83.8
Media & Advertising	(9.0)	(23.8)	(32.8)
Membership & Subscriptions:			
Vacations	47.6	(12.6)	35.0
Personals	15.9	(5.2)	10.7
Discounts	(20.2)	(4.3)	(24.5)
Total Membership & Subscriptions	43.2	(22.1)	21.1
Expedia, Inc.	257.0	(70.5)	186.5
Emerging Businesses	(1.8)	(0.3)	(2.1)
Corporate and other	(41.8)	(122.5)	(164.3)
Total	\$ 442.1	\$ (292.2)	\$ 150.0
Other income, net			77.5
Earnings from continuing operations before income taxes and minority interest			227.5
Income tax expense			(88.2)
Minority interest in income of consolidated subsidiaries			(1.5)
Earnings from continuing operations			137.8
Loss from discontinued operations, net of tax			(23.0)
Earnings before preferred dividends			114.7
Preferred dividends			(6.5)
Net earnings available to common shareholders			\$ 108.2

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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, anticipated trends and prospects in the various industries in which IAC and its businesses operate, IAC's business prospects and strategy, and anticipated financial position, liquidity and capital needs. These forward-looking statements reflect the views of IAC management regarding current expectations and projections about future events and are based on currently available information. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Actual results could differ materially from those contained in the forward-looking statements included in this report for a variety of reasons, including, among others:

- adverse changes in economic conditions generally or in any of the markets or industries in which IAC's businesses operate;
- changes in senior management at IAC and/or its businesses;
- adverse changes to, or interruptions in, IAC's relationships with third party distribution channels, suppliers, advertisers and other parties with whom it has significant relationships;
- changes to IAC's ability to commit resources to develop or acquire new technologies, which may be necessary to maintain or grow our businesses;
- weaknesses in the concert, special event and sporting event environments;
- changes affecting IAC's ability to efficiently maintain and grow the respective market shares of its various brands, as well as to extend the reach of these brands through a variety of distribution channels and to attract new (and retain existing) customers;
- the rates of growth of the Internet, the e-commerce industry and broadband access, as well as the rates of online migration in the various markets and industries in which IAC's businesses operate;
- competition from other companies;
- changes adversely affecting the ability of IAC to adequately expand the reach of its various businesses into various international markets, as well as to successfully manage risks specific to international operations, including, but not limited to, the following:
 - competition from local businesses, which may better understand local consumers and their preferences, as well as have more established local brand recognition;
 - developing, managing and staffing international operations and the related difficulties resulting from distance, language and cultural differences; and
 - fluctuations in foreign exchange rates, which could cause results of international operations, when translated, to materially differ from expectations;
- the successful completion of pending corporate transactions and the integration of acquired businesses, including:
 - the successful integration of the operations, as well as the accounting, financial controls, management information, technology, human resources and other administrative systems, of acquired businesses with IAC's existing operations and systems;

- the retention of senior management and other key personnel at acquired businesses; and
- the successful management of acquisition-related strain on IAC's management, operations and financial resources;
- future regulatory and legislative actions and conditions affecting IAC, including:
 - the promulgation of new, and/or the amendment of existing, laws, rules and regulations applicable to IAC and its businesses; and
 - changes in the application or interpretation of existing laws, rules and regulations in the case of IAC and its businesses. In each case, laws, rules and regulations include, among others, those relating to sales, use, occupancy, value-added and other taxes, consumer protection and privacy, the Internet and e-commerce;
- changes adversely affecting the ability of IAC and its business to adequately protect intellectual property rights, as well as to obtain licenses or other rights with respect to intellectual property in the future, which may or may not be available on favorable terms (if at all);
- third party claims alleging infringement of intellectual property rights by IAC and its businesses, which could result in the expenditure of significant financial and managerial resources, injunctions or the imposition of damages, as well as the need to enter into formal licensing or other similar arrangements with such third parties, which may or may not be available on favorable terms (if at all);
- acts of terrorism, war or political instability; and
- changes in IAC's ability to obtain favorably priced inventory, which may be impacted by increased competition from third party distributors (offline and online) and partners and suppliers (through direct websites and other channels) and increases in occupancy rates.

Certain of these factors and other factors, risks and uncertainties are discussed in IAC's filings with the SEC. Other unknown or unpredictable factors also could have a material adverse effect on IAC's business, financial condition and results of operations.

In light of these risks and uncertainties, the forward-looking statements discussed in this report may not occur. Accordingly, readers 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 is not under any obligation and does not intend to publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's short-term investment portfolio, loans held for sale and long-term debt, including the current portion thereof, and its warehouse line of credit. The Company invests its excess cash in debt securities of government agencies and high quality corporate issuers. The portfolio is reviewed on a periodic basis and adjusted in the event that the credit ratings of securities held in the portfolio deteriorates.

Based on the Company's total debt investment securities as of June 30, 2005, a 100 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the debt securities by approximately \$26.2 million. Such potential increase or decrease are based on

certain simplifying assumptions, including a constant level and rate of debt securities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period. Conversely, since almost all of the Company's cash balance of approximately \$2.5 billion is invested in variable rate interest earning assets, the Company would also earn more (less) interest income due to such an increase (decrease) in interest rates.

At June 30, 2005, the Company's outstanding debt approximated \$1.6 billion, a majority of which is fixed rate obligations. If market rates decline, the Company runs the risk that the related required payments on the fixed rate debt will exceed those based on market rates. As part of its risk management strategy, the Company uses derivative instruments, including interest rate swaps, to hedge some of this interest rate exposure. The Company's intent is to offset gains and losses resulting from this exposure with losses and gains on the derivative contracts used to hedge it, thereby reducing volatility of earnings and protecting fair values of assets and liabilities. The Company's objective in managing its exposure to interest rate risk on its long-term debt is to maintain its mix of floating rate and fixed rate debt within a certain range. During 2004 and 2003, the Company entered into interest rate swap agreements related to a portion of the 2002 Senior Notes, which allow IAC to receive fixed rate amounts in exchange for making floating rate payments based on the LIBOR. As of June 30, 2005, of the \$750 million notional amount outstanding under the 2002 Senior Notes, the interest rate is fixed on \$350 million at 7% and floating on \$400 million, with the rate based on a spread over 6-month LIBOR. In addition, during 2004 the Company sold swap agreements of a notional amount of \$250 million and \$100 million for nominal gains, which are being amortized over the remaining life of the 2002 Senior Notes. The changes in fair value of the interest rate swaps at June 30, 2005 resulted in an unrealized gain of \$6.6 million.

The majority of the Company's outstanding fixed-rate debt relates to the \$750.0 million notional amount outstanding under the 2002 Senior Notes as well as the \$360.8 million notional amount outstanding under the 1998 Senior Notes. Excluding the \$400 million under the 2002 Senior Notes which currently pays a variable interest rate as a result of the outstanding swap agreements noted above, a 100 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the fixed-rate debt by approximately \$21.2 million. Such potential increase or decrease are based on certain simplifying assumptions, including a constant level and rate of fixed-rate debt for all maturities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period. If the LIBOR rates were to increase (decrease) by 100 basis points, then the annual interest payments on the \$400 million of variable-rate debt would have increased (decreased) by \$4.0 million. Such potential increase or decrease are based on certain simplifying assumptions, including a constant level and rate of variable-rate debt for all maturities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

LendingTree Loans is exposed to interest rate risk for loans it originates and subsequently sells in the secondary market ("loans held for sale") and as a party to interest rate lock commitments ("IRLCs") to fund mortgage loans at interest rates previously agreed upon by the subsidiary and the borrower for specified periods of time.

LendingTree Loans hedges the changes in fair value of the loans held for sale primarily by using mortgage forward delivery contracts. These hedging relationships are documented as fair value hedges. For loans held for sale that are hedged with forward delivery contracts, the carrying value of the loans held for sale and the derivatives are adjusted for the change in fair value during the time the hedge was deemed to be highly effective. The effective portion of the derivative and the loss or gain of the hedged item attributed to the hedged risk are recognized in the accompanying statement of operations as a component of revenue and are offsetting. If it is determined that the hedging relationship is not highly effective, hedge accounting is discontinued. When hedge accounting is discontinued, the affected loans held for sale are no longer adjusted for the changes in fair value, however, the changes in fair

value of the derivative instruments are recognized in current earnings as a component of revenue. For the three and six months ended June 30, 2005, the Company recognized \$0.9 million and \$1.1 million in losses, respectively, related to hedge ineffectiveness and \$0.3 million in gains and \$0.6 million in losses, respectively, related to changes in the fair value of derivative instruments when hedge accounting was discontinued.

IRLCs are derivative instruments and, therefore, are required to be recorded at fair value, with changes in fair value reflected in current period earnings. To manage the interest rate risk associated with the IRLCs the Company uses derivative instruments, including mortgage forward delivery contracts. These instruments do not qualify for hedge accounting. The changes in fair value of these instruments for the three and six months ended June 30, 2005 resulted in losses of \$1.8 million and \$1.9 million, respectively, which have been recognized as a component of revenue in the accompanying statement of operations.

The Company formally designates and documents all hedging relationships as either fair value hedges or cash flow hedges, as applicable, and documents the objective and strategy for undertaking the hedge transaction.

Foreign Currency Exchange Risk

The Company conducts business in certain foreign markets, primarily in the European Union and Canada. The Company's primary exposure to foreign currency risk relates to investments in foreign subsidiaries that transact business in a functional currency other than the U.S. Dollar, primarily the Euro, British Pound Sterling and Canadian Dollar. However, the exposure is mitigated since the Company has generally reinvested profits from international operations in order to grow the businesses.

As the Company increases its operations in international markets it becomes increasingly exposed to potentially volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on the Company are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause the Company to adjust its financing and operating strategies.

As currency exchange rates change, translation of the income statements of the Company's international businesses into U.S. dollars affects year-over-year comparability of operating results. Historically, the Company has not hedged translation risks because cash flows from international operations were generally reinvested locally.

Foreign exchange gains and losses were not material to the Company's earnings in 2005 and 2004. However, the Company periodically reviews its strategy for hedging transaction risks. The Company's objective in managing its foreign exchange risk is to minimize its potential exposure to the changes that exchange rates might have on its earnings, cash flows and financial position.

During the second quarter of 2003, one of the Company's foreign subsidiaries entered into a foreign exchange forward contract with a notional amount of \$38.6 million which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary's functional currency. Foreign exchange re-measurement gains and losses related to the contract and liability are recognized each period in the statements of operations and are offsetting. The change in fair value of this foreign exchange forward contract at June 30, 2005 resulted in an unrealized loss of \$6.4 million.

During the fourth quarter of 2003, Expedia entered into a cross currency swap with a notional amount of Euro 39 million which is to mature on October 30, 2013 and is used to hedge against the change in value of an asset denominated in a currency other than the subsidiary's functional currency. This swap enables the Company to pay Euro at a rate of the three-month EURIBOR plus 0.50% on Euro 39 million. In exchange the Company receives 4.9% interest on \$46.4 million. In addition, on

April 14, 2004, Expedia entered into a cross currency swap with a notional amount of Euro 38.2 million which is to mature on April 7, 2014 and is used to hedge against the change in value of an asset in a similar manner to the swap described above. This swap enables the Company to pay Euro at a rate of the six-month EURIBOR plus 0.90% on Euro 38.2 million. In exchange the Company receives 5.47% interest on \$45.9 million. At the date of maturity, these agreements call for the exchange of notional amounts. The changes in fair value of these cross currency swaps at June 30, 2005 resulted in unrealized gains of \$0.6 million.

Equity Price Risk

The Company has a minimal investment in equity securities of publicly traded companies. These investments, as of June 30, 2005, were considered available-for-sale and included in long-term assets with the unrealized gain deferred as a component of shareholders' equity. It is not customary for the Company to make significant investments in equity securities as part of its marketable securities investment strategy.

On August 4, 2004, IAC made an investment in eLong, a Cayman Island company, whose principal business is the operation of an Internet based travel business in the People's Republic of China. The purchase price of the investment was approximately \$59 million in cash that represented a 30% interest in eLong which is accounted for under the equity method at December 31, 2004. Concurrent with the original investment, eLong issued a warrant to IAC to acquire such additional eLong shares as would be necessary to provide IAC with a minimum aggregate investment of 51% of eLong shares on a fully diluted basis for approximately \$6.21 per share.

In January 2005, IAC exercised the warrant and IAC now owns approximately 52% of the outstanding capital stock of eLong on a fully diluted basis, representing approximately 96% of the total voting power of eLong. Accordingly, following this exercise, the Company began to consolidate the results of eLong effective January 2005.

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 their overall effectiveness. In the course of this evaluation, the Company modifies and refines its internal processes as conditions warrant.

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

As required by Rule 13a-15(d) of the Exchange Act, the Company, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and 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, there has been no such change during the period covered by this report.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company and its subsidiaries are parties to litigation involving property, personal injury, contract, and other claims. The amounts that may be recovered in such matters may be subject to insurance coverage.

Rules of the Securities and Exchange Commission require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant's business, and advise that proceedings ordinarily need not be described if they primarily involve damages claims for amounts (exclusive of interest and costs) not exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters which the Company and its subsidiaries are defending, including those described below, involves or is likely to involve amounts of that magnitude. The litigation matters described below involve issues or claims that may be of particular interest to the Company's shareholders, regardless of whether any of these matters may be material to the financial position or operations of the Company based upon the standard set forth in the SEC's rules.

Tax-Related Litigation against Vivendi

This litigation, *InterActiveCorp (f/k/a USA Interactive) et ano. v. Vivendi Universal et al.*, is described in detail on pages 28-29 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the "2004 10-K"). On April 20, 2005, the Supreme Court of Delaware, sitting *en banc*, heard oral argument in the defendants' appeal from the judgment of the Delaware Chancery Court, entered on August 5, 2004, granting IAC's motion for judgment on the pleadings. While the appeal was pending, the parties, in connection with the resolution of a number of other business and legal issues, agreed that the appeal should be dismissed and that the underlying lawsuit should be settled. Accordingly, on June 10, 2005, the appeal was dismissed with prejudice, and on June 14, 2005, the parties filed with the Chancery Court an acknowledgment of satisfaction of judgment in full and final settlement of the litigation.

Securities Class Action Litigation against IAC

This litigation, *In re IAC/InterActiveCorp Securities Litigation*, pending in the United States District Court for the Southern District of New York and arising out of the Company's August 4, 2004 announcement of its earnings for the second quarter of 2004, is described in detail on pages 29-30 of the 2004 10-K. On May 20, 2005, the plaintiffs filed a consolidated amended complaint. Like the twelve complaints previously filed in this case, this complaint generally alleges that the value of the Company's stock was artificially inflated by pre-announcement statements about its financial results and forecasts that were false and misleading due to the defendants' alleged failure to disclose various problems faced by the Company's travel businesses. The plaintiffs seek to represent a class of shareholders who purchased IAC common stock between March 31, 2003 and August 3, 2004. The defendants are IAC and fourteen current or former officers or directors of the Company or its Expedia travel business. The complaint purports to assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, as well as Sections 11 and 15 of the Securities Act of 1933, and seeks damages in an unspecified amount. The Company and the other defendants intend to file a motion to dismiss the complaint.

With respect to the two related shareholder derivative actions (*Garber* and *Butler*), on April 11, 2005, the district court, having previously consolidated *Butler* with the securities class action for pre-trial purposes only, issued a similar consolidation order as to *Garber* as well. On June 3, 2005, the district court appointed co-lead counsel for the plaintiffs in the derivative cases. On July 5, 2005, the plaintiffs

filed a consolidated shareholder derivative complaint. The defendants are IAC (as a nominal defendant) and sixteen current or former officers or directors of the Company or its Expedia travel business. The complaint, which is based upon factual allegations similar to those in the securities class action, purports to assert claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, violation of Section 14(a) of the Exchange Act, and contribution and indemnification. The complaint seeks an order voiding the election of the Company's current Board of Directors, as well as damages in an unspecified amount, various forms of equitable relief, restitution, and disgorgement of remuneration received by the individual defendants from the Company. The defendants intend to file a motion to dismiss the complaint.

Tickets.com Antitrust Litigation

This litigation, *Ticketmaster Corp. et ano. v. Tickets.com, Inc.*, is described in detail on pages 35-36 of the 2004 10-K. As noted in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (the "First Quarter 10-Q"), on April 11, 2005, the United States Court of Appeals for the Ninth Circuit issued a memorandum decision affirming the judgment of the United States District Court for the Central District of California, entered on March 25, 2003, dismissing Tickets.com's antitrust counterclaims against Ticketmaster. Tickets.com did not seek further appellate review in the United States Supreme Court, thereby bringing this matter to a close.

Litigation Relating to Hotel Occupancy Taxes

These purported class actions against IAC and its travel businesses Expedia, Hotels.com, and Hotwire are described in detail on pages 32-35 of the 2004 10-K and on pages 45-46 of the First Quarter 10-Q. The lawsuits generally allege that IAC's travel businesses improperly charge and/or fail to pay hotel occupancy taxes and engage in other deceptive practices in charging customers for taxes and fees. Noteworthy developments in these cases are described below.

Hotels.com. As previously noted, in the *Canales* consumer class action pending in Texas state court, on May 2, 2005, the court issued an order granting the plaintiff's motion for class certification. On May 18, 2005, Hotels.com filed an interlocutory appeal from the certification order. The appeal has been fully briefed, and oral argument before the Texas Court of Appeals for the Fourth District is scheduled for August 10, 2005.

Expedia. As previously noted, on March 7, 2005, Expedia, invoking the recently enacted federal Class Action Fairness Act (the "CAFA"), removed this consolidated consumer class action, *In re Expedia Hotel Taxes and Fees Litigation*, from Washington state court to the United States District Court for the Western District of Washington. On March 17, 2005, the plaintiffs filed a motion to remand the case to state court, asserting that by reason of its effective-date provision, the CAFA does not apply to the case and thus does not afford a basis for removal. Expedia opposed the motion. On April 15, 2005, the federal district court issued an order granting the motion to remand. On April 22, 2005, Expedia filed in the United States Court of Appeals for the Ninth Circuit a petition for leave to appeal the district court's remand order pursuant to the CAFA. The plaintiffs opposed the petition. On July 15, 2005, the court of appeals issued an order denying Expedia's petition for leave to appeal.

Hotwire. As previously noted, on March 7, 2005, Hotwire and IAC, invoking the CAFA, removed three substantially similar consumer class actions from California state court to the United States District Court for the Northern District of California. On March 22, 2005, the plaintiffs moved to remand the three cases to state court, based upon the same arguments made in the case against Expedia. Hotwire and IAC opposed those motions. On April 19, 2005, the federal district court consolidated the three cases into one action, *Jana Sneddon v. Hotwire, Inc. et al.* On June 29, 2005, the district court issued an order granting the motion to remand. On July 6, 2005, Hotwire and IAC filed

in the United States Court of Appeals for the Ninth Circuit a petition for leave to appeal the district court's remand order pursuant to the CAFA.

Consumer Class Action against Various Internet Travel Companies. As previously noted, on March 28, 2005, the defendants in this purported consumer class action, *Ronald Bush et al. v. CheapTickets, Inc. et al.*, invoking the CAFA, removed the case from California state court to the United States District Court for the Central District of California. On March 31, 2005, the federal district court issued an order to show cause why the case should not be remanded to state court for lack of federal subject-matter jurisdiction, on the grounds that the CAFA does not apply to the case in light of the statute's effective-date provision. On April 11, 2005, the parties each filed responses to the order to show cause. On May 5, 2005, the district court issued an order remanding the case to state court. On May 16, 2005, the defendants filed in the United States Court of Appeals for the Ninth Circuit a petition for leave to appeal the district court's remand order pursuant to the CAFA. On July 13, 2005, the court of appeals issued an order granting the defendants' petition and setting a briefing schedule. Oral argument of the appeal has been scheduled for September 16, 2005.

City of Philadelphia Litigation. On July 12, 2005, the city of Philadelphia filed an action in Pennsylvania state court against a number of Internet travel companies, including Hotels.com, Hotwire and Expedia. See *City of Philadelphia v. Hotels.com et al.*, No. 000860 (Court of Common Pleas, Philadelphia County). The complaint alleges that the defendants have failed to pay to the city hotel occupancy taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance, common-law conversion, imposition of a constructive trust, and an accounting. The complaint seeks damages in an unspecified amount, as well as restitution and disgorgement.

The Company believes that the claims in all of these litigations relating to hotel occupancy taxes lack merit and will continue to defend vigorously against them.

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, 2005:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share(1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	(d) Maximum Number of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs(3)
April 2005	40,800,000	\$ 22.20	40,800,000	57,265,908
May 2005	7,200,000	\$ 22.47	7,200,000	50,065,908
June 2005	56,611,308(4)	\$ 24.64(5)	—	50,065,908
Total	104,611,308	\$ 23.54	48,000,000	50,065,908

(1) Reflects the weighted average price paid per share of IAC Common Stock.

(2) Reflects repurchases made pursuant to repurchase authorizations previously announced in November 2003 and November 2004. These repurchases were made to effectively offset a substantial portion of the dilution expected to result from the Ask Jeeves acquisition. See "Part I—Item 2—Management's Discussion of Financial Condition and Results of Operations—Financial Position, Liquidity and Capital Resources." Following these repurchases, no shares remain available for repurchase under the November 2003 repurchase authorization.

- (3) Represents, as of June 30, 2005, shares that may yet be purchased pursuant to the November 2004 repurchase authorization. Repurchases pursuant to this authorization may be made on an opportunistic basis over an indefinite period of time, on the open market or through private transactions, depending on those factors that IAC deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.
- (4) Represents 43,181,308 shares of IAC Common Stock and 13,430,000 shares of IAC Class B common stock received by IAC in connection with the sale of its interests in VUE on June 7, 2005.
- (5) Closing price of IAC Common Stock on The Nasdaq National Market on June 7, 2005.

Item 6. Exhibits

Exhibit Number	Description	Location
2.1	Agreement and Plan of Merger, dated as of March 21, 2005, by and among IAC/InterActiveCorp, AJI Acquisition Corp. and Ask Jeeves, Inc.	Included as Appendix A to the proxy statement/prospectus included in the Registrant's Registration Statement on Form S-4 (SEC File No. 333-124340), filed on April 26, 2005.
3.1	Restated Certificate of Incorporation of IAC.	Exhibit 3.1 to IAC's Current Report on Form 8-K, filed on October 14, 2003.
3.2	Certificate of Ownership and Merger merging NC3, Inc. into InterActiveCorp under the name IAC/InterActiveCorp.	Exhibit 3.1 to IAC's Current Report on Form 8-K, filed on July 14, 2004.
3.3	Amended and Restated ByLaws of IAC.	Exhibit 99.1 to IAC's Current Report on Form 8-K, filed on September 20, 2002.
4.1	Indenture (relating to the Zero Coupon Subordinated Convertible Notes of Ask Jeeves, Inc.), dated as of June 4, 2003, by and between Ask Jeeves, Inc. and The Bank of New York, as Trustee.	Exhibit 4.1 to IAC's Current Report on Form 8-K, filed on July 22, 2005.
4.2	Form of Zero Coupon Convertible Subordinated Note of Ask Jeeves, Inc.	Exhibit 4.2 to IAC's Current Report on Form 8-K, filed on July 22, 2005.
4.3	Supplemental Indenture (relating to the Zero Coupon Subordinated Convertible Notes of Ask Jeeves, Inc.), dated as of July 19, 2005, by and among the Registrant, Ask Jeeves, Inc. and the Bank of New York Trust Company, N.A., as Trustee.	Exhibit 4.3 to IAC's Current Report on Form 8-K, filed on July 22, 2005.
10.1*	IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan.	Incorporated by reference to Annex J to IAC's Definitive Proxy Statement, included in Amendment No. 3 to IAC's Registration Statement on Form S-4, filed with the Commission on June 17, 2005 (SEC File No. 333-124303).

- 10.2†* Form of Restricted Stock Unit Agreement for the IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan.
- 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.
- 31.2† Certification of the 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.
- 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.
- 32.2†† Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.
-

* Reflects management contracts and management and director compensatory arrangements.

† Filed herewith.

†† Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 8, 2005

IAC/INTERACTIVECORP

By: /s/ BARRY DILLER

Barry Diller
Chairman and Chief Executive Officer

Signature	Title	Date
<p>_____ /s/ BARRY DILLER Barry Diller</p>	<p>Chairman of the Board, Chief Executive Officer and Director</p>	<p>August 8, 2005</p>
<p>_____ /s/ THOMAS J. MCINERNEY Thomas J. McInerney</p>	<p>Executive Vice President and Chief Financial Officer</p>	<p>August 8, 2005</p>
<p>_____ /s/ MICHAEL H. SCHWERDTMAN Michael H. Schwerdtman</p>	<p>Vice President and Controller (Chief Accounting Officer)</p>	<p>August 8, 2005</p>

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FORM OF IAC/INTERACTIVECORP RESTRICTED STOCK UNIT AGREEMENT

THIS AGREEMENT, dated as of the award date (the "Award Date") designated on the Summary of Award referenced below, between IAC/InterActiveCorp, a Delaware corporation (the "Corporation"), and the employee of the Corporation or one of its businesses (the "Employee") designated as receiving an award of restricted stock units (the "Restricted Stock Units") by the Compensation/Benefits Committee of the Board of Directors of the Corporation (or such other Committee as the Board may from time to time designate) (the "Committee").

All capitalized terms used herein, to the extent not defined, shall have the meanings set forth in the Corporation's 2005 Stock and Annual Incentive Plan (the "Plan").

1. Award and Vesting of Restricted Stock Units

(a) Subject to the provisions of this Agreement and to the provisions of the Plan, the Corporation hereby grants Restricted Stock Units to the Employee pursuant to Section 7 of the Plan. Reference is made to the "Summary of Award" that can be found on the Smith Barney Benefit Access System at www.benefitaccess.com. Your Summary of Award, which sets forth the number of Restricted Stock Units granted to you by the Corporation and the Award Date (among other information), is hereby incorporated by reference into, and shall be read as part and parcel of, this Agreement.

(b) Subject to the terms and conditions of this Agreement, the provisions of the Plan [and subject to the satisfaction of performance goals approved by the Committee on [DATE]], the Restricted Stock Units shall vest and no longer be subject to any restriction (such period during which restrictions apply is the "Restriction Period"):

Vesting Date	Percentage of Total Award Vesting
On the first anniversary of the Award Date	20%
On the second anniversary of the Award Date	20%
On the third anniversary of the Award Date	20%
On the fourth anniversary of the Award Date	20%
On the fifth anniversary of the Award Date	20%

(c) Notwithstanding the provisions of Paragraph 1(b), in the event the Employee incurs a Termination of Employment by the Corporation for Cause, or the Employee voluntarily incurs a Termination of Employment within two (2) years after any event or circumstance that would have been grounds for a Termination of Employment for Cause, the Employee's Restricted Stock Units (whether or not vested) shall be forfeited and canceled in their entirety upon such Termination of Employment, and the Corporation may cause the Employee, immediately upon notice from the Corporation, either to return the shares or cash issued upon settlement of Restricted Stock Units which vested during the two-year period after the events or circumstances giving rise to or constituting grounds for such Termination of Employment for Cause or to pay to the Corporation an amount equal to the aggregate amount, if any, that the Employee had previously realized in respect of any and all shares issued upon settlement of Restricted Stock Units which vested during the two-year period after the events or circumstances giving rise to or constituting grounds for such Termination of Employment for Cause (*i.e.*, the value of the Restricted Stock Units upon vesting), in each case including any dividend equivalents or other distributions received in respect of any such Restricted Stock Units.

(d) In the event the Employee incurs a Termination of Employment during the Restriction Period for any reason other than as set forth in Paragraph 1(c), all remaining unvested Restricted Stock Units shall be forfeited by the Employee and canceled in their entirety effective immediately upon such termination.

(e) For purposes of this Agreement, employment with the Corporation shall include employment with the Corporation's Affiliates and its successors. Nothing in this Agreement or the Plan shall confer upon the Employee any right to continue in the employ of the Corporation or any of its Affiliates or interfere in any way with the right of the Corporation or any such Affiliates to terminate the Employee's employment at any time.

2. *Settlement of Units*

As soon as practicable after any Restricted Stock Units have vested and are no longer subject to the Restriction Period (or at such later date specified by the Committee or in accordance with the election of the Employee, if the Committee so permits), such Restricted Stock Units shall be settled. Subject to Paragraph 8 (pertaining to the withholding of taxes), for each Restricted Stock Unit settled pursuant to this Section 2, the Corporation shall (i) if the Employee is employed within the United States, issue one share of Common Stock for each Restricted Stock Unit vesting at such time and cause to be delivered to the Employee one or more unlegended, freely-transferable stock certificates in respect of such shares issued upon settlement of the vesting Restricted Stock Units or (ii) if the Employee is employed outside the United States, pay, or cause to be paid, to the Employee an amount of cash equal to the Fair Market Value of one share of Common Stock for each Restricted Stock Unit vesting at such time. Notwithstanding the foregoing, the Corporation shall be entitled to hold the shares or cash issuable upon settlement of Restricted Stock Units that have vested until the Corporation or the agent selected by the Corporation to manage the Plan under which the Restricted Stock Units have been issued (the "Agent") shall have received from the Employee a duly executed Form W-9 or W-8, as applicable.

3. *Non-Transferability of the Restricted Stock Units*

During the Restriction Period and until such time as the Restricted Stock Units are ultimately settled as provided in Paragraph 2 above, the Restricted Stock Units shall not be transferable by the Employee by means of sale, assignment, exchange, encumbrance, pledge, hedge or otherwise.

4. *Rights as a Stockholder*

Except as otherwise specifically provided in this Agreement, during the Restriction Period the Employee shall not be entitled to any rights of a stockholder with respect to the Restricted Stock Units. Notwithstanding the foregoing, if the Corporation declares and pays dividends on the Common Stock during the Restriction Period, the Employee will be credited with additional amounts for each Restricted Stock Unit equal to the dividend that would have been paid with respect to such Restricted Stock Unit if it had been an actual share of Common Stock, which amount shall remain subject to restrictions (and as determined by the Committee may be reinvested in Restricted Stock Units or may be held in kind as restricted property) and shall vest concurrently with the vesting of the Restricted Stock Units upon which such dividend equivalent amounts were paid. Notwithstanding the foregoing, dividends and distributions other than regular quarterly cash dividends, if any, may result in an adjustment pursuant to Paragraph 5.

5. *Adjustment in the Event of Change in Stock; Change in Control*

In the event of (i) a stock dividend, stock split, reverse stock split, share combination, or recapitalization or similar event affecting the capital structure of the Corporation (each, a "Share Change"), or (ii) a merger, consolidation, acquisition of property or shares, separation, spinoff, reorganization, stock rights offering, liquidation, Disaffiliation, or similar event affecting the Corporation or any of its Subsidiaries (each, a "Corporate Transaction"), the Committee or the Board may in its discretion make such substitutions or adjustments as it deems appropriate and equitable to

the number of Restricted Stock Units and the number and kind of shares of Common Stock underlying the Restricted Stock Units.

In the case of Corporate Transactions, such adjustments may include, without limitation (i) the cancellation of the Restricted Stock Units in exchange for payments of cash, property or a combination thereof having an aggregate value equal to the value of such Restricted Stock Units, as determined by the Committee or the Board in its sole discretion, (ii) the substitution of other property (including, without limitation, cash or other securities of the Corporation and securities of entities other than the Corporation) for the shares of Common Stock underlying the Restricted Stock Units and (iii) in connection with any Disaffiliation, arranging for the assumption of the Restricted Stock Units, or the replacement of the Restricted Stock Units with new awards based on other property or other securities (including, without limitation, other securities of the Corporation and securities of entities other than the Corporation), by the affected Subsidiary, Affiliate, or division or by the entity that controls such Subsidiary, Affiliate, or division following such Disaffiliation (as well as any corresponding adjustments to any Restricted Stock Units that remain based upon securities of the Corporation).

The determination of the Committee regarding any such adjustment will be final and conclusive and need not be the same for all Participants.

Unless otherwise determined by the Committee, in the event of a Change in Control, the provisions of Section 10 of the Plan shall apply.

6. *Payment of Transfer Taxes, Fees and Other Expenses*

The Corporation agrees to pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of shares received by an Employee in connection with the Restricted Stock Units, together with any and all other fees and expenses necessarily incurred by the Corporation in connection therewith.

7. *Other Restrictions*

(a) The Restricted Stock Units shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, then in any such event, the award of Restricted Stock Units shall not be effective unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The Employee acknowledges that the Employee is subject to the Corporation's policies regarding compliance with securities laws, including but not limited to its Securities Trading Policy (as in effect from time to time and any successor policies), and, pursuant to these policies, if the Employee is on the Corporation's insider list, the Employee shall be required to obtain pre-clearance from the Corporation's General Counsel prior to purchasing or selling any of the Corporation's securities, including any shares issued upon vesting of the Restricted Stock Units, and may be prohibited from selling such shares other than during an open trading window. The Employee further acknowledges that, in its discretion, the Corporation may prohibit the Employee from selling such shares even during an open trading window if the Corporation has concerns over the potential for insider trading.

8. *Taxes and Withholding*

No later than the date as of which an amount first becomes includible in the gross income of the Employee for federal, state, local or foreign income or employment or other tax purposes with respect to any Restricted Stock Units, the Employee shall pay to the Corporation, or make arrangements satisfactory to the Corporation regarding the payment of, any federal, state, local or foreign taxes of

any kind required by law to be withheld with respect to such amount. The obligations of the Corporation under this Agreement shall be conditioned on compliance by the Employee with this Paragraph 8, and the Corporation and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Employee, including deducting such amount from the delivery of shares or cash issued upon settlement of the Restricted Stock Units that gives rise to the withholding requirement.

9. Notices

All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by facsimile, overnight courier, or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Employee: at the last known address on record at the Corporation.

If to the Corporation:

IAC/InterActiveCorp
Carnegie Hall Tower
152 West 57th Street, 42nd Floor
New York, NY 10019
Attention: General Counsel
Facsimile: (212) 314-7497

or to such other address or facsimile number as any party shall have furnished to the other in writing in accordance with this Paragraph 9. Notice and communications shall be effective when actually received by the addressee. Notwithstanding the foregoing, the Employee consents to electronic delivery of documents required to be delivered by the Corporation under the securities laws.

10. Effect of Agreement

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Corporation.

11. Laws Applicable to Construction; Consent to Jurisdiction

The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without reference to principles of conflict of laws, as applied to contracts executed in and performed wholly within the State of Delaware. In addition to the terms and conditions set forth in this Agreement, the Restricted Stock Units are subject to the terms and conditions of the Plan, which are hereby incorporated by reference.

Any and all disputes arising under or out of this Agreement, including without limitation any issues involving the enforcement or interpretation of any of the provisions of this Agreement, shall be resolved by the commencement of an appropriate action in the state or federal courts located within the state of Delaware, which shall be the exclusive jurisdiction for the resolution of any such disputes. The Employee hereby agrees and consents to the personal jurisdiction of said courts over the Employee for purposes of the resolution of any and all such disputes.

12. Severability

The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

13. Conflicts and Interpretation

In the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan.

In the event of any (i) conflict between the Summary of Award (or any other information posted on the Smith Barney Benefit Access System) and this Agreement, the Plan and/or the books and records of the Corporation, or (ii) ambiguity in the Summary of Award (or any other information posted on the Smith Barney Benefit Access System), this Agreement, the Plan and/or the books and records of the Corporation, as applicable, shall control.

14. Amendment

The Corporation may modify, amend or waive the terms of the Restricted Stock Unit award, prospectively or retroactively, but no such modification, amendment or waiver shall impair the rights of the Employee without his or her consent, except as required by applicable law, NASDAQ or stock exchange rules, tax rules or accounting rules. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

15. Headings

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

16. Counterparts

This Agreement may be executed in counterparts, which together shall constitute one and the same original.

17. Data Protection

The Employee authorizes the release from time to time to the Corporation (and any of its subsidiaries or affiliated companies) and to the Agent (together, the "Relevant Companies") of any and all personal or professional data that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). Without limiting the above, Employee permits his or her employing company to collect, process, register and transfer to the Relevant Companies all Relevant Information (including any professional and personal data that may be useful or necessary for the purposes of the administration of the Plan and/or this Agreement and/or to implement or structure any further grants of equity awards (if any)). Employee hereby authorizes the Relevant Information to be transferred to any jurisdiction in which the Corporation, his or her employing company or the Agent considers appropriate. Employee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

IN WITNESS WHEREOF, as of the date first above written, the Corporation has caused this Agreement to be executed on its behalf by a duly authorized officer and the Employee has hereunto set the Employee's hand. Electronic acceptance of this Agreement pursuant to the Corporation's instructions to Employee (including through an online acceptance process managed by the Agent) is acceptable.

IAC/INTERACTIVECORP

Name:

Title:

EMPLOYEE

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[FORM OF IAC/INTERACTIVECORP RESTRICTED STOCK UNIT AGREEMENT](#)

Certification

I, Barry Diller, Chairman and Chief Executive Officer of IAC/InterActiveCorp ("IAC"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of IAC;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2005

By: /s/ BARRY DILLER

Barry Diller
Chairman and Chief Executive Officer

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[Certification](#)

Certification

I, Thomas J. McNerney, Executive Vice President and Chief Financial Officer of IAC/InterActiveCorp ("IAC"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of IAC;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2005

By: /s/ THOMAS J. MCINERNEY

Thomas J. McNerney
Executive Vice President and
Chief Financial Officer

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[Certification](#)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barry Diller, Chairman and Chief Executive Officer of IAC/InterActiveCorp (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2005 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2005

By:

/s/ BARRY DILLER

Barry Diller
Chairman and Chief Executive Officer

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[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas J. McNerney, Executive Vice President and Chief Financial Officer of IAC/InterActiveCorp (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2005 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2005

By: /s/ THOMAS J. MCINERNEY

Thomas J. McNerney
Executive Vice President and
Chief Financial Officer

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[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)