QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 or 15(d) of the
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): **August 8, 2005**

IAC/INTERACTIVECORP

(Exact name of Registrant as specified in charter)

Delaware (State or other jurisdiction of incorporation)	**0-20570** (Commission File Number)	**59-2712887** (IRS Employer Identification No.)
152 West 57th Street, New York, NY (Address of principal executive offices)		**10019** (Zip Code)

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

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 8.01 OTHER EVENTS

During the second quarter of 2005, and in contemplation of the Spin-Off of Expedia, Inc., the chief operating decision maker and executive management of IAC/InterActiveCorp (the "Company" or the "Registrant") realigned how they view the businesses and how the businesses are organized. Accordingly, IAC has changed its reportable segments to reflect the new structure of the organization and the manner in which the chief operating decision maker regularly assesses information for decision-making purposes. The Company has also introduced sector reporting that corresponds to the broad areas of interactivity in which IAC operates. As a result, the following table shows the new sectors and the realigned reportable segments:

Previous reportable segments
IAC Travel
Electronic Retailing:
HSN U.S.
HSN International
Ticketing
Personals
IAC Local and Media Services
Financial Services and Real Estate
Teleservices
Corporate and other

New reportable segments
Retailing:
U.S.
International
Services:
Ticketing
Financial Services and Real Estate
Teleservices
Home Services
Media & Advertising
Membership & Subscriptions:
Vacations
Personals
Discounts
Expedia, Inc.
Emerging Businesses
Corporate and other

The Registrant is treating four segments as reportable segments for the first time: *Home Services*, which consists of ServiceMagic and previously had been part of IAC Local and Media Services, is reported within our *Services* sector; *Discounts*, which consists of Entertainment Publications, Inc., also formerly part of IAC Local and Media Services, is reported within our *Membership & Subscriptions* sector; *Vacations*, which had been part of IAC Travel and consists of Interval, is reported within *Membership & Subscriptions*; and *Media & Advertising*, which consists of Citysearch and Evite, the remaining former components of IAC Local and Media Services.

The Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 filed with the Securities and Exchange Commission on August 8, 2005 describes the Company's new segment structure in further detail.

As required by Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information," consolidated financial statements issued by the Registrant in the future will reflect this change in the Company's reportable business segments, including reclassification of all comparative prior period segment information.

Attached and incorporated herein by reference as Exhibit 99.1 is the Company's Business description, reflecting the change in the Company's reportable business segments. Also attached and incorporated by reference as Exhibit 99.2 is certain annual and quarterly financial information, presented on a basis that reflects the above-mentioned change in the Company's reportable business segments, including the reclassification of previously published segment data.

In addition, during the first quarter of 2005, the Registrant entered into an agreement to sell to ProSiebenSat. 1 Media AG, a German media company, its 48% ownership interest in EUVÍA, an operator of 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. Further, 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 in the accompanying financial information for all periods presented.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

Exhibit No.	Description
99.1	Portions of Business to reflect recasted segment information.
99.2	Portions of Management's Discussion and Analysis of Financial Condition and Results of Operations for the years ended December 31, 2004, 2003 and 2002 and for the three months ended March 31, 2005 and 2004 to reflect recasted segment information.

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.

IAC/INTERACTIVECORP

By: /s/ GREGORY R. BLATT

Name: Gregory R. Blatt
Title: Executive Vice President and General Counsel

Date: August 12, 2005

Exhibit 99.1

DESCRIPTION OF BUSINESS

Overview

IAC 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 currently operates a diversified portfolio of specialized and global brands in the retailing, services, media & advertising, membership & subscriptions and travel industries. IAC enables billions of dollars of consumer-direct transactions for products and services via the internet and telephone. All references to the "IAC," the "Company," "we," "our," or "us" in this Exhibit 99.1 are to IAC/InterActiveCorp.

IAC consists of the following sectors:

- Retailing, which includes U.S. and International;
- Services, which includes Ticketing, Financial Services and 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).

Spin-Off of Expedia

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. IAC completed the Spin-Off on August 9, 2005. Following the Spin-Off:

- Expedia consists of the travel and travel-related businesses and investments that IAC currently operates (other than Interval and TV Travel Shop ("TVTS"), which were not spun-off by IAC with Expedia); and
- IAC continues to operate and/or manage its remaining businesses and investments, which currently comprise its Retailing, Services, Media & Advertising and Membership & Subscriptions sectors.

Recent Developments

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

Further, on April 1, 2005, IAC completed it acquisition of Cornerstone Brands, Inc., a portfolio of leading print catalogs and online retailing sites that sell home products and leisure and casual apparel. The U.S. Retailing segment will include the results of Cornerstone Brands beginning in the second quarter of 2005.

Retailing

U.S. Retailing

Overview. U.S. Retailing consists of HSN and the brands and business it operates. HSN sells a variety of consumer products, primarily through the HSN and America's Store television networks and HSN.com, as well as through consumer catalog services and infomercials. The HSN and America's Store television networks both broadcast live, customer interactive electronic retail sales programming 24 hours a day, seven days a week.

Programming produced by HSN is intended to promote sales and customer loyalty through a combination of product quality, price and value, coupled with product information and entertainment. Programming on the HSN and America's Store television networks is divided into separately televised segments, each of which has a host who presents and conveys information regarding the featured product, sometimes with the assistance of a representative from the product vendor.

HSN Merchandise. HSN features over 25,000 consumer products, including jewelry, computers and electronics, home fashions, cookware and kitchen aids and health, beauty and fitness products, among others. Featured products include exclusive, third party-branded products, as well as HSN-branded products.

HSN provides viewers with a number of convenient options in connection with the purchase, payment and shipping of merchandise, which vary by product, including the AutoShip program, pursuant to which customers can arrange to have purchases automatically sent and billed to them on a regularly scheduled basis, and the Flexpay option, which allows customers to pay for purchases in up to five monthly, interest-free installments. Standard and express shipping options are available and customers may generally return most merchandise within 30 days of receipt for a full refund or exchange.

HSN purchases merchandise made to its specifications, as well as merchandise from name brand vendors and other third party lines, typically under certain exclusive rights, and overstock inventories from wholesalers, the mix and source of which depends upon a variety of factors, including price and availability. HSN generally does not enter into long-term supply arrangements with any of its vendors, given that there are a variety of sources of supply available.

Reach. As of December 31, 2003 and 2004, the HSN television network reached approximately 81.1 million and 85.5 million of the approximately 108.4 million and 109.6 million homes in the United States with a television set, respectively. Television households reached by the HSN television network as of December 31, 2003 and 2004 primarily include approximately 61.9 million and 62.6 million households capable of receiving cable and/or broadcast transmissions and approximately 18.6 million and 22.6 million direct broadcast satellite system, or DBS, households, respectively.

As of December 31, 2003 and 2004, the America's Store television network reached approximately 10.4 and 13.0 million DBS households and approximately 7.1 million and 6.2 million cable television households, of which approximately 3.5 million and 4.3 million were distributed on a digital tier, respectively. Of the total number of cable television households that received the America's Store television network as of December 31, 2003 and 2004, approximately 6.9 and 6.0 million, respectively, also received the HSN television network.

HSN produces live programming for the HSN and America's Store television networks in its studios in St. Petersburg, Florida. HSN distributes its programming by means of its satellite uplink facilities, which it owns and operates, to two satellite transponders leased by HSN on a full-time basis through May 2019 and November 2019.

Pay Television Distribution. HSN has entered into multi-year affiliation agreements with cable operators and the two largest DBS operators in the United States to carry the HSN and/or America's Store television networks, as well as to promote one or both networks by carrying related commercials and distributing related marketing materials to their respective subscriber bases. In exchange for this carriage and related promotional and other efforts, including commitments to deliver pre-determined numbers of subscribers over specified time periods, HSN generally pays these pay television operators a commission, based on a percentage of the net merchandise sales, to their subscriber bases. In certain cases, pay television operators receive additional compensation in the form of the purchase of advertising time on other programming networks, commission guarantees and/or upfront payments in exchange for their commitments to deliver subscribers.

From time to time, pending the renewal of an existing affiliation agreement or the negotiation of a new affiliation agreement, the HSN and/or America's Store television networks will be carried by one or more pay television operators without an effective affiliation agreement in place. Renewal and negotiation processes with pay television operators are typically protracted. Existing affiliation agreements with certain major cable operators and DBS operators are scheduled to expire over the course of 2005. Some, but not all of these agreements, contain renewal provisions. While HSN intends to pursue the renewal of, or negotiate new, cable and DBS affiliation agreements to carry the HSN and/or America's Store television networks, no assurances can be given that it will be able to do so on acceptable terms, if at all.

Broadcast Television Distribution. As of December 31, 2004, HSN also had affiliation agreements with 1 full-time, full power television station, 18 part-time, full power television stations and 103 low power television stations for carriage of the HSN and/or America's Store television networks with terms ranging from several weeks to several years. In exchange for this carriage, HSN pays broadcast television stations hourly or monthly fixed rates. The HSN and/or America's Store networks are also distributed on a full-time basis by 27 low power television stations pursuant to a long-term affiliation agreement between HSN and Ventana Television, Inc., a wholly-owned subsidiary of IAC.

HSN.com. HSN operates HSN.com, a transactional e-commerce site that serves as an alternative storefront for merchandise featured on the HSN and/or America's Store television networks, as well as a significant amount of additional inventory available only through HSN.com. HSN.com also provides consumers with additional content to support and enhance HSN television programming, including an online program guide, a 24-hour product review through which consumers can find and view products previously featured on the HSN television network, live streaming video of the HSN television network and additional information about HSN show hosts and guest personalities. Consumers can also track the status of their online orders, communicate directly with customer service via e-mail and manage their account information through HSN.com. HSN.com generated approximately 15.9% of HSN sales in 2004.

Catalog Services and Infomercials. HSN catalog services consists of three consumer catalogs and related websites that feature thousands of home, yard and automotive products. New editions of the full-color catalogs are mailed to customers several times each year for a total annual circulation of over 80 million catalogs.

On April 1, 2005, IAC acquired Cornerstone Brands, a portfolio of leading print catalogs and related online retailing sites that sell home products and leisure and casual apparel. Cornerstone Brands' portfolio includes Frontgate, Ballard Designs, Garnet Hill, Smith and Noble, The Territory Ahead and TravelSmith. IAC currently operates and manages the existing catalog services of HSN as part of Cornerstone Brands. HSN also offers select products through nationwide infomercial campaigns, which it produces and manages, on pay television networks on a limited basis.

International Retailing

As of December 31, 2004, International Retailing consisted of HSE-Germany, as well as minority interests in home shopping businesses in China and Japan.

HSE-Germany. As of December 31, 2004, International Retailing owned approximately 90% of HSE-Germany. HSE-Germany operates a German-language home shopping business that is broadcast 24 hours a day, seven days a week, in Germany, Austria and Switzerland and also generates sales on its own website. International Retailing acquired the remaining 10% interest in HSE-Germany that it did not already own on February 9, 2005. As of December 31, 2004, HSE-Germany had approximately 19.9 million cable and 9.8 million satellite subscribers in Germany, approximately 943,000 cable and 1.0 million satellite subscribers in Austria and approximately 1.3 million cable and 220,000 satellite subscribers in Switzerland.

HSE-Germany does not need a license from German state media authorities to broadcast its programming over-the-air, via cable or via satellite. However, HSE-Germany generally must still obtain the right to broadcast its programming in a given state on a given cable channel from state media authorities in each of Germany's 16 states on a periodic basis, generally every 18 to 24 months. HSE-Germany enters into affiliation agreements with local cable operators in each of Germany, Austria and Switzerland, as well as with one principal DBS operator for carriage in all of these countries. No assurances can be given that HSE-Germany will be able to maintain its existing rights to broadcast its programming over the cable networks of each of Germany's 16 states and/or negotiate affiliation agreements with pay television operators on acceptable terms, if at all.

Competition

U.S. Retailing. HSN operates in a highly competitive environment. The HSN and America's Store television networks are in direct competition with traditional offline and online retailers, ranging from large department stores to specialty shops, electronic retailers, direct marketing retailers, such as mail order and catalog companies, and discount retailers. The HSN and America's Store television networks compete with, and HSN expects to face increasing competition from, other companies that market merchandise by means of live television. The HSN and America's Store television networks also compete for access to customers and audience share with other conventional forms of entertainment and content. The price and availability of programming for pay television systems affect the availability of distribution for HSN programming and the compensation that must be paid to pay television operators for related carriage.

In addition, competition for channel capacity has increased. While the advent of digital cable may decrease this competition, this additional capacity may encourage competitors to enter the marketplace, which could adversely affect the ability of HSN to attract viewers and customers. No prediction can be made with respect to the extent to which digital technology will ultimately impact the availability of channel capacity or the ability of new competitors to enter the marketplace. Also, certain broadcast television stations can demand carriage on local cable systems pursuant to "must-carry" rights, which may apply to digital television in the future. HSN is and will continue to be affected by these mandatory carriage rights to the extent that they decrease the number of available cable channels. No assurances can be provided that HSN will be able to secure well-positioned channel capacity on attractive terms and its inability to do so could have a material adverse effect on its business, financial condition and results of operations.

HSN.com competes with numerous brick-and-mortar retailers, other online and offline retailers, catalog merchants and television shopping channels. A number of HSN.com's online competitors have a larger user base and greater expertise in developing online commerce. HSN believes that the principal competitive factors in this market are selection of goods, customer service, reliability of delivery, brand recognition, convenience and accessibility, price, quality of search tools and system reliability.

International Retailing. HSE-Germany competes in Germany with traditional retailers, direct marketing retailers and other electronic retailers, some of which offer 24-hour electronic retailing or use infomercials and a small amount of live programming.

Regulation

Congress, the FCC and federal courts currently are reviewing certain existing cable, newspaper and media ownership restrictions. Depending on the outcome of FCC proceedings and of any subsequent court review, individual cable operators might acquire control over larger segments of the nation's cable customers and channels, in which case HSN could be required to negotiate with fewer cable operators that would control larger portions of the market for the terms of and opportunity to secure carriage. Regardless of the outcome of these FCC proceedings, the antitrust laws could impose independent limitations on the concentration of cable ownership. HSN cannot predict the outcome of these FCC proceedings, any subsequent court challenges, or future applications of the antitrust laws. No assurances can be made that the outcome of these FCC proceedings and subsequent marketplace activity would not materially affect HSN or IAC.

HSN is subject to a variety of consumer protection laws and regulations relating to the accuracy of its product claims.

Services

Ticketing

Overview. Ticketing consists primarily of Ticketmaster and the brands and businesses it operates, including ReserveAmerica, among others. Ticketmaster and its affiliated brands provide online and offline ticketing services through Ticketmaster-owned websites, operator-staffed call centers and independent retail outlets, serving many of the foremost venues, entertainment facilities, promoters and professional sports franchises in the United States and abroad, including in Canada, Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom. Ticketmaster has also entered into joint ventures with third parties to provide ticket distribution services in Australia and Mexico.

Ticketmaster has continued to expand its ticketing operations into territories outside of the United States and continues to experience growth in these markets. Ticketmaster sold approximately 26.1 million tickets in 2003 as compared to approximately 29.3 million in 2004 in these markets (excluding sales by unconsolidated international joint ventures).

Ticketmaster also continues to expand its ticket distribution capabilities through the continued development of its website, *www.ticketmaster.com*, and related domestic and international websites, which are designed to promote ticket sales for live events and disseminate event information. Ticketmaster's primary ticketing website, w*ww.ticketmaster.com*, is a leading online ticketing service that enables consumers to purchase tickets over the Internet for live music, sports, arts and family entertainment events presented by Ticketmaster's clients. Consumers can access *www.ticketmaster.com* directly, or from the websites of Ticketmaster's affiliates, including Citysearch, and through numerous direct links from banners and event profiles hosted by approved third party websites. In addition, *www.ticketmaster.com* and related international websites provide local information and original content regarding live events for Ticketmaster clients throughout the United States and abroad. Ticketmaster has experienced growth in ticket sales through its websites in recent years and Ticketmaster expects that this trend will continue during the next several fiscal years, although at a slower pace. As of December 31, 2004, online ticket sales through *www.ticketmaster.com* and related websites accounted for more than one half of Ticketmaster's ticketing volume.

Ticketmaster System. Ticketmaster believes that its proprietary operating system and software, generally referred to as the Ticketmaster System, as well as its extensive distribution capabilities, provide its clients with a number of benefits. The Ticketmaster System, which includes both hardware and software, is typically located in a data center that is managed by Ticketmaster staff. The Ticketmaster System provides a single, centralized inventory control and management system capable of tracking total ticket inventory for all events, whether sales are made on a season, subscription, group or individual ticket basis. All necessary hardware and software required for the use of the Ticketmaster System is installed in a client's facility box office, call centers or remote sales outlets. The versatility of the Ticketmaster System allows it to be customized to satisfy a full range of client requirements. In areas of Europe outside of the United Kingdom and Ireland, Ticketmaster's operating businesses generally use localized versions of Ticketmaster's proprietary operating system and software, or their own separate, local operating systems and software, all of which are also proprietary to Ticketmaster.

Client Relationships. Ticketmaster generally enters into written agreements with its clients pursuant to which it agrees to provide the Ticketmaster System and related systems purchased by the client, and to serve as the client's exclusive ticket sales agent for all sales of individual tickets sold to the general public outside of the facility's box office, including any tickets sold at remote sales outlets, over the phone or via the Internet, for specified multi-year periods. Pursuant to an agreement with a facility, Ticketmaster generally is granted the right to sell tickets for all events presented at that facility for which tickets are publicly available, and as part of such arrangement Ticketmaster installs the necessary ticketing equipment in the facility's box office. An agreement with a promoter generally grants Ticketmaster the right to sell tickets for all events presented by that promoter at any facility for which tickets are publicly available, unless the facility is covered by an exclusive agreement with Ticketmaster or another automated ticketing service company.

Ticketmaster generally does not buy tickets from its clients for resale to the public and typically assumes no financial risk for unsold tickets. All ticket prices are determined by Ticketmaster's clients. Ticketmaster's clients also generally determine the scheduling of when tickets go on sale to the public and what tickets will be available for sale through Ticketmaster. Facilities and promoters, for example, often handle group sales and season tickets in-house. Ticketmaster only sells a portion of its clients' tickets, the amount of which varies from client to client and varies as to any single client from year to year.

Revenues. Ticketing revenue is generated principally from convenience charges and order processing fees received by Ticketmaster for each ticket sold by Ticketmaster on behalf of its clients. These charges are negotiated and included in Ticketmaster's contracts with its clients. Pursuant to its contracts with clients, Ticketmaster is granted the right to collect from ticket purchasers a per ticket convenience charge on all tickets sold through *www.ticketmaster.com*, by telephone and through remote sales outlets and other media. There is an additional "order processing" fee on all ticket orders sold by Ticketmaster, other than at remote sales outlets. Generally, the amount of the convenience charge is determined during the contract negotiation process, and typically varies based upon numerous factors, including the services to be rendered to the client, the amount and cost of equipment to be installed at the client's box office and the amount of advertising and/or promotional allowances to be provided, as well as the type of event and whether the ticket is purchased through *www.ticketmaster.com*, by telephone, through a remote sales outlet or other media. Any deviations from those amounts for any event are negotiated and agreed upon by Ticketmaster and its client prior to the commencement of ticket sales. Generally, the agreement between Ticketmaster and a client will also establish the amounts and frequency of any increases in the convenience charge and order processing fees during the term of the agreement. In certain cases, clients may participate in the convenience charges and/or order processing fees paid by ticket purchasers for tickets bought through Ticketmaster for their events. The amount of such participation, if any, is determined by negotiation between Ticketmaster and the client.

ReserveAmerica. ReserveAmerica, an outdoor recreation reservation services company, is a leading provider of camping and ticketing services and software to United States federal and state agencies. Specific areas include services for outdoor recreation point-of-sale systems, tour ticketing management, camping reservations and general recreation ticketing to public land attractions. The ReserveAmerica system permits the general public to make camping reservations and obtain access to public recreation attractions over the Internet, by telephone and in person. ReserveAmerica's websites, *www.reserveamerica.com*, *www.reserveusa.com.*, *hearst.reserveamerica.com* and *www.bwcaw.org* service up to 1,500,000 visitors monthly. ReserveAmerica also maintains four telephone call centers in New York, California, Florida and Wisconsin.

Competition. Ticketmaster's ticketing business faces competition from other national, regional and local ticketing service companies and entertainment organizations with ticketing distribution capabilities, as well as from its clients and aggregations of its clients, such as major league sports leagues, which increasingly have the capability to fulfill ticketing distribution and management functions through their own systems. Not all facilities, promoters and other potential clients use the services of an automated ticketing company, choosing instead to distribute their tickets through their own internal box offices or other distribution channels.

Other companies compete with Ticketmaster by selling stand-alone automated ticketing systems to enable facilities to do their own ticketing. Several of Ticketmaster's competitors have operations in multiple locations, while others compete principally in one specific geographic location. Ticketmaster experiences substantial competition for potential client accounts and renewals of contracts on a regular basis. Accordingly, there can be no assurance that prospective or renewal clients will enter into contracts with Ticketmaster rather than Ticketmaster's competitors (including clients that choose to self-distribute with or without the assistance of the numerous companies that support self-distribution). Ticketmaster competes on the basis of products and service provided, capability of the ticketing system, its distribution network, reliability and price.

As an alternative to purchasing tickets through Ticketmaster, ticket purchasers generally may purchase tickets from the facility's box office at which an event will be held or by season, subscription or group sales directly from the venue or promoter of the event. Although Ticketmaster's clients may process sales of these tickets through the Ticketmaster System, Ticketmaster derives no convenience charge or other processing revenue from the ticket purchasers with respect to those ticket purchases.

Regulation. Ticketmaster is subject to certain state and local regulations, including laws in several states establishing maximum convenience and processing charges on tickets for certain live events in the primary and/or secondary ticketing markets. Other legislation that could affect the way Ticketmaster does business, including legislation that would further regulate convenience charges and order-processing fees, is introduced from time to time in federal, state and local legislative bodies in the United States and abroad. Ticketmaster is unable to predict whether any such legislation will be adopted and, if so, the impact on its business.

Financial Services and Real Estate

Overview. Financial Services and Real Estate consists of LendingTree and the brands and businesses it operates, collectively referred to as LendingTree. LendingTree's primary businesses are online exchanges that connect consumers and service providers in the lending and real estate industries and offer related services and products. Consumers can access LendingTree's services and products through three channels: LendingTree websites, third party websites and by telephone.

Financial Services. LendingTree's lending exchange services encompass most consumer credit categories, including mortgages (in connection with purchases and refinancings), home equity, automobile loans, personal and debt consolidation loans and credit cards. Consumers seeking loan products through a LendingTree channel generally begin the process by completing a simple online request, or qualification form. Consumer information is then automatically compared to the underwriting criteria of participating lenders. Qualified consumers can receive multiple loan offers from participating lenders or LendingTree Loans (as described below) in response to a single request and then compare, review and accept the offer that best suits their needs.

LendingTree generates financial services revenues from fees paid by participating lenders for the transmission of qualification forms that meet their underwriting criteria. Since a given qualification form can be transmitted to more than one participating lender (generally, up to five), LendingTree typically generates multiple transmission fees from the same qualification form. In certain cases, fees are paid to LendingTree when the participating lender who received the qualification form closes a loan with the consumer. LendingTree also generates fees from the sale of loans into secondary markets and borrowers.

In December 2004, LendingTree acquired Home Loan Center, a consumer direct lender now known as LendingTree Loans, which originates, processes, approves and funds mortgage, home equity, refinancing and debt consolidation loans in its own name. LendingTree Loans generally sells closed loans that it funds to investors in the secondary mortgage market. Consumer leads generated by LendingTree's exchanges are directed either to participating lenders or LendingTree Loans. Due to the volume and diversity of consumer leads generated by LendingTree's exchanges, LendingTree believes that it will continue to deliver value to its participating lenders as a cost-effective distribution channel.

Real Estate Services. Consumers interested in working with a real estate professional in connection with the purchase or sale of an existing or newly-constructed home can access LendingTree's real estate-related services online and complete a simple form. In the case of existing home transactions, upon completion of the form the consumer is provided with a choice of local real estate professionals from a nationwide network. Upon selection of a real estate professional, the consumer's information is forwarded to the real estate professional via web-based technology. In the case of newly-constructed homes, LendingTree provides consumers with a coupon that is presented to their new homebuilder, registering a LendingTree brand as the real estate broker of record. In all cases, if the consumer and the real estate professional agree to work together, the remainder of the transaction is completed locally and in certain cases, the consumer may be eligible for rebates and promotional incentives.

LendingTree generates real estate revenues from cooperative brokerage fees when the transmission of consumer information to the real estate professional results in the purchase or sale of a home, upon the transmission of consumer information to a participating real estate professional or in advance for the right to receive leads on a recurring basis over pre-determined time periods. In the case of consumer leads provided to new homebuilders, LendingTree earns a real estate commission when the consumer and the builder close a transaction.

Competition. In the case of lending-related services, LendingTree competes with traditional offline lending institutions and financial service companies, as well as with online lenders (including traditional offline lending institutions that have developed their own stand-alone online lending channels) that originate the bulk of their loans through their own websites or the telephone. These companies typically operate branded websites and attract consumers via online banner ads, key word placement on search engines, partnering with affiliates and business development arrangements with other properties, including major portals. In the case of real estate-related services, LendingTree competes with traditional offline real estate companies, as well as websites that provide online real estate referral services for a fee and websites that offer real estate broker lists without related services and customer support.

Regulation. Services available through LendingTree's brands and businesses are subject to extensive regulation by various federal, state and in some instances, local, governmental authorities.

Most states require licenses to solicit, broker or make loans secured by residential mortgages and other consumer loans to residents of those states. In addition, LendingTree is required to obtain real estate broker licenses in numerous states to operate its real estate referral services.

Some states have regulations that prohibit real estate brokers from providing consumers with a rebate or other incentives in connection with a real estate transaction. Additional states could promulgate similar regulations or interpret existing regulations in a way that limits the ability of LendingTree's real estate exchanges to offer consumer incentives, thereby limiting the attractiveness of this service to consumers.

Federal law, such as the Real Estate Settlement Procedures Act, or RESPA, generally prohibits the payment or receipt of referral fees and fee shares or splits in connection with residential mortgage loan transactions. The applicability of referral fee and fee sharing prohibitions to the lender, realty services, advertising, marketing, distribution and cyberspace rental arrangements used by online companies like LendingTree may have the effect of reducing the types and amounts of fees that LendingTree may charge or pay in connection with real estate-secured loan products, including mortgage brokerage, lending services and real estate brokerage. Notwithstanding these prohibitions, RESPA permits payments for facilities furnished or for services actually performed, so long as the total of those payments bears a reasonable relationship to the market value of such facilities or services. A separate exception exists for cooperative brokerage fees exchanged between real estate brokers. Although LendingTree believes that it has structured its mortgage and real estate referral operations to comply with RESPA, there can be no assurances that the relevant regulatory agency will not take a contrary position.

Teleservices

Overview. PRC provides outsourced customer lifecycle management solutions, both domestically and internationally, to a diversified portfolio of companies. PRC uses its industry-specific business process expertise and enabling technologies to support the brand experience and customer relationship management strategies of its clients. PRC's integrated solutions include inbound (customer-initiated) and outbound teleservices, e-commerce customer care services, information technology (including its proprietary Customer Relationship Management technology), database marketing and management and fulfillment services. PRC provides its clients with a cost-effective and efficient method for managing their growing customer service and marketing needs. PRC also offers a wide variety of information technology services, including the formulation and design of teleservicing and electronic applications, programming and demographic profiling, in each case, on a customized basis.

PRC's primary source of revenue is its customer care activities, which consist primarily of inbound and outbound teleservicing, as well as other activities, such as direct communication with customers via e-mail, fax, letter and online chat/IP telephony, all of which involve direct communication with consumers. The majority of PRC's revenues are derived from inbound teleservicing, which consists of longer-term customer care and customer service programs that tend to be more predictable than other teleservicing revenues.

Competition. The customer care industry is very competitive and highly fragmented. Competitors range in size from very small firms offering specialized applications and short-term projects, to large independent and international firms and the in-house operations of many clients and potential clients, which comprises the largest segment of the teleservices industry. In addition, PRC competes with large technology and consulting firms.

Regulation. The industries served by PRC are subject to varying degrees of government regulation, including state qualification and licensing requirements. PRC works closely with its clients and their advisors to develop the scripts to be used by PRC personnel in making customer contacts and to comply with any state qualification and/or licensing requirements for eligibility to perform services for clients. PRC generally requires its clients to indemnify PRC against claims and expenses arising out of the client's business activities.

PRC's customer care activities involve direct communication with consumers and are subject to extensive regulation by federal and state regulatory authorities including, the Telemarketing and Consumer Fraud and Abuse Prevention Act and the Telephone Consumer Protection Act. Regulations promulgated pursuant to this legislation prohibit the use of automatic telephone dialing systems, artificial and prerecorded messages and telephone facsimile machines to send unsolicited advertisements, as well as deceptive and abusive telemarketing practices. These regulations also control the timing of telemarketing calls and require that certain disclosures be made to consumers at both the outset of telemarketing transactions and prior to obtaining payment information. These regulations also authorized the creation and enforcement of the National Do Not Call Registry. Telemarketers are prohibited from calling consumers who place their number on the National Do Not Call Registry unless there is a pre-existing business relationship between the seller and the consumer.

Home Services

Overview. Home Services consists primarily of ServiceMagic and the brands and businesses it operates. ServiceMagic is a leading online marketplace that connects consumers with pre-screened, customer-rated home service professionals. IAC acquired ServiceMagic in September 2004. When consumers submit a home service request through the ServiceMagic marketplace, ServiceMagic connects them with home service professionals from its network of over 28,000 customer-rated home service professionals, which collectively provide more than 500 different categories of home service needs, ranging from simple home repairs and maintenance to complete home remodeling projects. ServiceMagic earns revenue primarily from fees paid to ServiceMagic by home service professionals for consumer leads, regardless of whether the home service professional that received the lead ultimately provides the requested service, as well as from one time fees charged to home service professionals upon their enrollment in the ServiceMagic network.

Competition. ServiceMagic currently competes with other home service-related lead generation services, as well as with Internet directories, local advertising, including radio, direct marketing campaigns, yellow pages, newspapers and other offline directories.

Media & Advertising

Media & Advertising consists of Citysearch and Evite and the respective brands and businesses they operate, and will include Ask Jeeves from the date of its acquisition on July 19, 2005.

Ask Jeeves

Overview. Ask Jeeves provides information search and retrieval services to search engine users through a diverse portfolio of websites, downloadable applications and distribution networks. Ask Jeeves-branded websites consist of *www.ask.com* in the U.S., *www.ask.co.uk* in the U.K. and *www.ask.jp* (a joint venture) in Japan. On Ask Jeeves-branded websites, search engine users submit queries and Ask Jeeves' proprietary algorithmic search engine, Teoma, responds by generating a list of websites likely to offer relevant and authoritative content. Ask Jeeves' proprietary brands also include three content-rich portals, *www.excite.com*, *www.iWon.com* and *www.MyWay.com*, and several other search sites.

Ask Jeeves earns revenue primarily by displaying paid listings and other advertisements on its websites. Ask Jeeves also generates revenue by distributing advertisements and search services across two networks of third party websites, the MaxOnline advertising network and the Ask Jeeves syndication network. Ask Jeeves pays fees to network partners in order to reach their users with its advertising and search services. Ask Jeeves proprietary technologies include Teoma, portal technology and ad-serving processes.

Competition. In its efforts to attract search engine users, syndicate search technologies and attract network partners and advertisers, Ask Jeeves competes against operators of destination search sites and searchcentric portals, search technology providers and online advertising networks. Ask Jeeves' principal competitors are Google Inc., Microsoft (operator of The Microsoft Network (MSN) portal and provider of MSN Search), Time Warner Inc. (operator of the America Online (AOL) portal) and Yahoo! Inc. (operator of the Yahoo! portal). Ask Jeeves believes that its ability to compete effectively with other search engines and portals for web traffic depends upon, among other things, the relevance and authority of its search results, the ease of use of its search services, the quality of its content, the utility of new and existing features on its websites (and the frequency with which users utilize them) and the speed with which it matches others' innovations.

Regulation. The business model of the *www.iWon.com* portal and certain other products distributed by Ask Jeeves is premised upon the ability to operate sweepstakes, which are subject to the gambling, lottery and disclosure laws of various jurisdictions. Currently, iWon sweepstakes are open to residents of the U.S. and Canada (other than Quebec). Ask Jeeves outsources the operation of certain aspects of its sweepstakes to an independent sweepstakes execution company and believes that its sweepstakes are operated in compliance with current laws and regulations in all applicable jurisdictions. If Ask Jeeves expands its sweepstakes business model internationally, it may be subject to additional international sweepstakes regulation.

Citysearch

Overview. Citysearch is a network of local city guide websites that offer primarily original local content for major cities in the United States and abroad, as well as practical transactional tools. Citysearch city guides provide up-to-date, locally produced information about a given city's arts and entertainment events, bars and restaurants, recreation, community activities and businesses (shopping and professional services), as well as real estate-related and travel information. Citysearch city guides also support online local transactions, including ticketing, hotel reservations, travel and matchmaking through affiliations with leading e-commerce websites, including some operated by IAC brands and businesses. These affiliate partners generally pay Citysearch fees (on a per click or revenue sharing basis, as applicable) for consumer leads sent to their respective websites.

Citysearch revenues are generated primarily through the sale of online advertising, both local and national, and to a smaller extent, from transaction fees from affiliate partners. Local advertising revenues are derived primarily from the sale of advertising through the Pay-For-Performance model, where businesses pay for the number of click-throughs to their respective profile pages on the

Citysearch website or their own websites, subject to monthly maximums determined by the business. Citysearch also derives revenues from self-enrollment enhanced listings in search results, targeted electronic mail promotions and targeted sponsorship packages.

Competition. The markets for local content, local services and local advertising are highly competitive and diverse. Citysearch's primary competitors include online providers of local content, numerous search engines and other site aggregation companies, media, telecommunications and cable companies, Internet service providers and niche competitors that focus on a specific category or geography and compete with specific content offerings provided by Citysearch. Many of Citysearch's competitors have greater financial and marketing resources than it has and may have significant competitive advantages through other lines of business and existing business relationships.

Evite

Overview. Evite is primarily a free online invitation service, which currently sends an average of more than 7 million invitations per month. In October 2004, Evite expanded its service offerings to include user specific recommendation platforms (based upon recommendations from a network of people with whom the user has shared an event) for restaurants, bars and clubs and a searchable database of over 50,000 live events, in each case, powered by Citysearch. The event database is provided through relationships with leading ticketing and event services, including Ticketmaster and Active.com. Evite revenues are generated primarily through online advertising and transaction fees generated from sponsorship partners integrated throughout the Evite service.

Competition. Evite competes with a number of online and offline invitation and party planning services, including providers of online greeting cards, web-based invitation services, paper-based invitation services and party planning services. Evite also competes with online and offline social networking services and providers of live event listing information and restaurant, bar and nightlife content.

Membership & Subscriptions

Vacations

Overview. Vacations consists of Interval, a leading membership-services company providing timeshare exchange and other value-added programs to its timeshare-owning members and resort developers worldwide. As of December 31, 2004, Interval had established contractual affiliations with over 2,000 resorts located in 76 countries and provided timeshare exchange services to nearly 1.7 million timeshare owners. Interval's revenues are generated primarily from fees paid by members in connection with exchange and rental transactions and membership fees.

Interval typically enters into multi-year contracts with developers of timeshare resorts, pursuant to which the developers agree to enroll all purchasers of timeshare accommodations at the applicable resort as members of Interval's network on an exclusive basis. In return, Interval provides the timeshare purchasers with the ability to exchange their timeshare accommodations for comparable accommodations at resorts participating in Interval's exchange network.

Developers generally remit Interval's initial basic membership fee on behalf of its timeshare owners for membership periods of one to three years at the time the timeshare interests are sold. Some developers have incorporated Interval's annual membership fee into their annual assessments and these owners' memberships are renewed annually by the developer during the period of the resort's participation in the Interval exchange network. However, in most cases, timeshare owners are responsible for renewing their memberships and paying related fees.

As an upgrade to its basic membership program, for an additional annual fee, exchange members can participate in the Interval Gold Program, a value-added, membership enhancement program. The

Interval Gold Program provides exchange members with year-round benefits and services, such as hotel, dining and leisure discounts, a concierge service and access to special exchange options, including golf, spa and cruise exchanges. As of December 31, 2004, approximately 35% of Interval's timeshare exchange members were enrolled in the Interval Gold Program.

Interval uses advanced telecommunications systems and technologies to deliver exchange and membership services to its members through call centers and through its website, *www.intervalworld.com*. Interval also makes travel-related products and services available to its members directly and through third party providers, as well as additional services through its website to select exchange members. Exchange members also receive regular publications highlighting Interval's exchange network and specific exchange opportunities and membership benefits and services and, upon confirmation of an exchange, an exchange information pack, which contains details regarding the relevant resort, on-site services and nearby attractions. Interval also provides a comprehensive array of services to the developers of resorts participating in its network, such as sales and marketing support, consulting services and back-office servicing solutions.

Competition. Interval faces competition primarily from Resort Condominiums International, LLC, a subsidiary of Cendant Corporation, as well as several other companies that perform exchanges on a smaller, often more regional, basis. A number of management companies also compete with Interval by offering exchange opportunities among resorts that they manage as a component of their management services. In addition, a wide variety of vacation clubs and large resort developers, some of which participate in Interval's exchange network, are creating and operating their own internal reservation and exchange systems to facilitate alternative accommodations for timeshare owners at their resorts.

Regulation. A number of states require Interval to prepare and file annual disclosure documents regarding its exchange services. In addition, the development of timeshare resorts and the sale of timeshare interests is a heavily regulated industry in the U.S. on a state level, as well as in various jurisdictions abroad. This regulation directly affects the resorts and members that participate in Interval's exchange network, which may affect Interval's business and, in turn, IAC's business. These regulatory regimes are routinely under review and are often the subject of legislation. While Interval closely monitors the content and progress of all such legislation, it is unable to predict whether such legislation will be adopted, when and in what form and, if so, what the impact may be on the members and resorts that participate in Interval's exchange network and/or Interval's business.

Personals

Overview. Personals consists primarily of Match.com, uDate.com and related brands. These brands and their networks serviced approximately 983,000 subscribers as of December 31, 2004 and offer single adults a private and convenient environment for meeting other singles through their respective websites, as well as through Match.com's affiliated networks.

Match.com provides users with access to other users' personal profiles and also enables a user interested in meeting another user to send e-mail messages to that user through Match.com's doubleblind anonymous e-mail system. E-mail recipients respond depending on their interest in the sender. It is free to post a profile on Match.com and to use any of the searching and matching tools available on the site. Match.com charges a subscription fee to users who wish to initiate or respond to e-mails from Match.com members, starting with a single-month term, with discounts for longer term subscriptions.

Match.com has entered into partnerships and strategic alliances with third parties, including the AOL and MSN portals, in order to increase subscriptions in general, as well as to target particular segments of its potential subscriber base and a broader and more diverse online audience. Typically, these partners earn a commission on each customer subscription they sell into the Match.com service.

In April 2002, IAC acquired Soulmates Technology Pty Ltd., or Soulmates, a global online personals group providing dating and matchmaking services in approximately 30 countries worldwide. Using the Soulmates technology platform, Match.com operates 30 localized international dating sites in 18 languages. IAC acquired uDate.com, Inc., a global online personals group that owns and operates *www.udate.com*, in April 2003.

Competition. The personals business is very competitive and highly fragmented. Primary competitors of the various brands that comprise Personals include numerous online and offline dating and matchmaking services (both free and paid), some of which operate nationwide and some of which operate locally, and the personals sections of newspapers and magazines. In addition to broad-based personals services, there are numerous niche websites and offline personals services that cater to specific demographic groups.

Regulation. Several state legislatures have introduced bills that, if passed into law, would require online dating services such as Match.com to either perform criminal background checks on their subscribers or prominently disclose that they do not perform such background checks. IAC is unable to predict whether any such legislation will be adopted and, if so, the impact such legislation will have on its Personals business.

Discounts

Overview. Discounts consists of Entertainment Publications, a leading marketer of coupon books, discounts, merchant promotions and Sally Foster Gift Wrap. EPI serves more than 160 major markets and does business with approximately 70,000 local merchants and national retailers representing 225,000 North American locations. EPI's Entertainment Book contains discount offers from local and national restaurants and hotels, leading national retailers and other merchants specializing in leisure activities. Information regarding updated offerings is also available through EPI's website. A unique feature of the Entertainment Book is that it is typically sold in connection with fund-raising events, with a percentage of the sale proceeds from these events retained by schools, community groups and other non-profit organizations. EPI also markets discount membership and packages in published and online formats to consumers via online commerce, direct marketing, corporate and retail channels.

Competition. Entertainment Publications currently competes on a national level with other providers of dining and other discounts, and on a local level with a variety of discount programs distributed via traditional fundraising channels. EPI also competes with, and expects to face increasing competition from, companies that use traditional fundraising channels to distribute products other than local discount or coupon books, such as gift wrap, magazines and chocolates.

Expedia

Overview

Expedia is among the world's leading travel services companies, making travel products and services available to leisure and corporate travelers in the United States and abroad through a diversified portfolio of brands, including Expedia.com, Hotels.com, Hotwire, Expedia Corporate Travel, Classic Custom Vacations and a range of other domestic and international brands and businesses. IAC completed the Spin-Off of Expedia on August 9, 2005.

Expedia brands and businesses make available a wide selection of travel products and services, from simple, discounted travel to more complex, luxury travel. Expedia's various brands and businesses target the needs of different consumers, including those who are focused exclusively on price and those who are focused on the breadth of product selection and quality of services. Through its differentiated brands and businesses, Expedia helps a broad range of leisure and corporate travelers research, plan and book travel.

Expedia makes available travel products and services primarily through its wholly-owned, branded websites, as well as through branded websites owned and operated by joint ventures and other companies in which Expedia has made investments. Expedia also makes available travel products and services through its private label program, through which it indirectly makes available travel products and services to customers through third party websites, as well as through traditional offline channels, including full-service telephone booking agents, onsite travel agents working at various corporate customer locations and in-destination Expedia!fun travel desks. Expedia also includes TripAdvisor, a comprehensive online travel search engine and directory.

Expedia makes its travel products and services available on a stand-alone and package basis primarily through two separate business models, the merchant model and agency model. See "—Merchant and Agency Business Models." In 2004, merchant gross bookings and agency gross bookings were approximately $5.7 billion and $7.5 billion, respectively. Expedia also derives revenue from advertising and promotional activities across its branded websites.

To ensure the success of its leisure and corporate travel businesses, Expedia has made substantial investments in technology and believes that innovation is a long-term competitive advantage, both in consumer- and supplier-oriented technology.

Portfolio of Brands and Businesses

Expedia has created an easily accessible global travel marketplace that is used by a broad range of leisure and corporate consumers and travel agents. This marketplace allows customers to research, plan and book travel products and services from travel suppliers and allows these travel suppliers to efficiently reach and provide their products and services to Expedia customers. Through its diversified portfolio of domestic and international brands and businesses, Expedia makes available, on a standalone and package basis, travel products and services provided by numerous airlines, lodging properties, car rental companies, cruise lines and destination service providers, such as attractions and tours. Using a portfolio approach for Expedia's brands and businesses allows it to target a broad range of customers looking for different value propositions. A description of Expedia's principal brands and businesses appears below.

Expedia.com. Expedia.com makes a large variety of travel products and services available directly to consumers through its U.S.-based website, *www.expedia.com*, as well as through localized versions of its website in Canada, France, Germany, Italy, the Netherlands and the United Kingdom, many of which are leading online travel service companies in their respective country. Through Expedia.com, Expedia also operates *www.anyway.com*, a leading online travel company in France. Expedia.co-branded websites also serve as the travel channel on MSN.com, Microsoft's online services network in the United States, as well as certain international MSN sites. See "—Marketing." Expedia.com-branded websites target many different types of consumers, from families booking a summer vacation to individual travelers arranging a quick weekend getaway. Consumers can search for, compare information about (including pricing and availability) and book travel products and services on Expedia.com-branded websites, including airline tickets, lodging, car rentals, cruises and many destination services, such as attractions and tours, from a large number of suppliers, on a stand-alone and package basis.

Hotels.com. Hotels.com makes available a large variety of lodging options to customers, who can plan, shop for and book lodging accommodations, from traditional hotels to vacation rentals, at over 15,000 properties worldwide. Hotels.com seeks to provide customers with premium content through its U.S.-based website, *www.hotels.com* (as well as localized versions in the Americas, Europe, Asia-Pacific and South Africa), its vacation rentals website at *www.vacationspot.com* and its toll-free call centers. Hotels.com is pursuing a strategy focused on differentiating its service offerings by positioning itself as a hotel expert with premium content about lodging properties, while simultaneously moving away from its historical focus solely on discount pricing.

Hotwire.com. Hotwire.com is a leading discount travel website that makes available airline tickets, hotel rooms, rental cars, cruises and vacation packages. Hotwire's opaque approach matches the needs of two groups: price-sensitive consumers willing to be flexible to save money and suppliers who have excess seats, rooms and cars they wish to fill without affecting the public's perception of their brands. Hotwire customers enjoy significant discounts by electing to book travel services "opaquely," without knowing certain itinerary details such as brand, time of departure and exact hotel location, while suppliers create value from excess inventory without diluting their core brand-loyal customer base. Hotwire works with many domestic and international airlines, including the U.S. full-service major network airlines, top hotels in hundreds of cities and resort destinations in the U.S., Europe, Canada, Mexico and the Caribbean and major car rental companies nationwide.

WWTE. WWTE, Expedia's private label program, is used to make travel products and services available to consumers through third party company-branded websites via Expedia's industry leading technology platform. The private label program, which is a low risk, cost-effective way for Expedia to enter new markets in the United States and abroad, enables Expedia to cover many more markets than is possible by setting up full-scale websites, which requires significant investment in technology and personnel. The products and services made available through WWTE websites are a subset of those made available on Expedia.com-branded websites. Expedia pays participants in the WWTE private label program on a revenue-share basis. Expedia also has a growing international private label business.

Classic Customs Vacations. Classic Customs Vacations or CCV, makes premium custom Hawaiian, Mexican, Caribbean and European travel packages available principally to a network of travel agents throughout the United States. Travel agents shopping for premium custom vacation packages for their customers can obtain such packages through the CCV team of telesales professionals. Customers can preview these packages directly through CCV's websites, *www.classiccustomvacations.com* and *www.classicvacations.com*.

Expedia!fun. Expedia!fun is a network of in-destination travel desks located at hotels and resorts in Florida, Hawaii and Mexico that offer travelers the opportunity to obtain tours, attractions, airport transfer services and other travel-related services. Expedia entered the destination services market through its acquisition of Activity World, a Hawaiian destination service provider, in 2004, and recently expanded its travel desk business with the 2005 acquisition of Premier Getaways, a destination service provider in Florida.

Expedia Corporate Travel. Expedia Corporate Travel is a full-service, travel management company that makes travel products and services available to corporate customers in the U.S. and in Europe. Expedia Corporate Travel is growing globally, and in 2004 established Expedia Corporate Travel Europe, which includes *www.egencia.com* and World Travel Management, which were acquired in March 2004 and August 2004, respectively. Expedia Corporate Travel provides, among other things, centralized booking tools for employees of its corporate customers, support of negotiated airfares and consolidated reporting aimed at small- and mid-sized businesses. Expedia Corporate Travel charges corporate client companies sign-up and set-up fees, as well as transactional fees for making or changing bookings. In addition, Expedia Corporate Travel provides on-site agents to some corporate clients in order to support the related account.

TripAdvisor. TripAdvisor is a comprehensive online travel search engine and directory that aggregates unbiased articles, guidebook reviews and user comments on cities, hotels and activities in a variety of given destinations from a number of online sources. In addition to travel-related information, TripAdvisor's destination-specific search results provide links to the websites of TripAdvisor's travel partners (travel service providers and marketers) through which consumers can make related travel arrangements.

International Opportunities and Investments

Expedia leverages its established brands and businesses to enter markets with large existing travel markets and established consumer behavior for planning and purchasing travel. Expedia reaches many customers in several countries and multiple continents through the brands and businesses described above. Expedia typically customizes international points of sale to reflect local language, currency, customs, traveler behavior and preferences and local hotel markets, all of which may vary from country to country. Expedia intends to continue to expand its international presence.

Expedia believes that Europe presents an especially large opportunity for its brands and businesses. Europe is more populous than the U.S. and, with more generous vacation policies by employers, Europeans generally take more frequent and longer vacations than do Americans. European hotel markets are more fragmented than U.S. hotel markets, and therefore, Expedia believes that it is more difficult for European hotels to reach their customers through traditional marketing initiatives than for U.S. hotels. Expedia believes that its ability to deliver the targeted marketing characteristics of the Internet increases the value it can bring to travel suppliers in Europe and elsewhere.

In addition to expanding its brands and businesses into foreign markets, Expedia also makes investments in travel and travel-related businesses abroad. For example, through Expedia.com, Expedia is party to a joint venture with Société Nationale des Chemins de Fer Français (SNCF), the state-owned railway group in France, which operates *www.voyages-sncf.com*, a leading online site for e-tourism in France. SNCF and Expedia (through Expedia.com) own 50.1% and 49.9% of the joint venture, respectively.

Expedia has also expanded into the Asia-Pacific region, where travel markets are growing. As part of its expansion into Asia-Pacific, Expedia currently holds approximately 52% of the outstanding capital stock (on a fully diluted basis) of eLong, Inc. (NASDAQ:LONG), or eLong. This stake represents approximately 96% of the total voting power of eLong. eLong is an independent travel service company headquartered in Beijing with a national presence across China. eLong uses web-based distribution technologies and a 24-hour nationwide call center to provide consumers with consolidated travel information and the ability to access hotel reservations at discounted rates at over 2,600 hotels in major cities across China. eLong offers air ticketing and other travel related services, such as rental cars, vacation packages and corporate travel services.

Merchant and Agency Business Models

Expedia, through its various brands and businesses, makes travel products and services available on a stand-alone and package basis, primarily through two separate business models: the merchant model and the agency model. Under the merchant model, Expedia facilitates the booking of hotel rooms, airline seats, car rentals and destination services from its travel suppliers and is, for such bookings, the merchant of record. Acting as the merchant of record enables Expedia to achieve a higher level of net revenues per transaction, promote additional services for its travel suppliers and generally provide lower prices to consumers as compared to those provided through the agency model. Merchant revenues are recognized when the customer uses the travel product or service, as opposed to when the travel product or service is booked. In the case of merchant transactions, Expedia generally has certain latitude to establish and change prices charged to customers (as compared to agency transactions). The merchant model provides travel suppliers a cost-efficient way (as compared to traditional marketing initiatives) to increase the marketing and promotion of their brands. Merchant revenues are derived from the difference between amounts paid to the travel suppliers and the amounts paid by the consumer.

Under the agency model, Expedia acts as an agent in the transaction, passing reservations booked by its customers to the relevant airline, hotel, car rental company or cruise line. Expedia receives a commission or ticketing fee from the travel supplier for its services under the agency model. In the case of agency airline transactions, Expedia also receives fees from global distribution systems partners, or GDSs, which control the computer systems through which air travel reservations are booked, in addition to any commissions or ticketing fees paid by travel suppliers. In agency transactions, the travel supplier sets the price paid by the consumer and the travel supplier appears as the merchant of record for the transaction. Agency revenues are derived primarily from commissions and ticketing fees from travel suppliers, revenues from GDSs and fees from leisure and corporate customers and are recognized at the time the reservation is booked. Fees from leisure and corporate customers include (i) service fees, which are charged in connection with most bookings on U.S. and some international websites, (ii) fees for processing and delivery of paper airline tickets via express mail and (iii) corporate transaction service fees for travel booking services provided to corporate customers.

Through Expedia-branded websites, customers can dynamically assemble multiple component travel packages in a single transaction at a savings as compared to booking each component separately. Packages assembled by customers through the dynamic packaging model on Expedia-branded websites include at least one major merchant air, car or hotel component. Customers select packages based on the total package price, without being provided component pricing. The use of the merchant travel components in packages enables Expedia to make certain travel products available at prices lower than those charged on a per component basis by travel suppliers without impacting their established pricing and positioning models.

Relationships with Travel Suppliers and Distribution Partners

Overview. Expedia makes travel products and services available from a variety of large and small commercial and charter airlines, lodging properties, major car rental companies and cruise lines and in-destination service providers. Expedia seeks to build and maintain long-term, strategic relationships with these travel suppliers that have the mutual objective of shared success, as well as build additional strategic relationships with other travel suppliers and GDS partners. An important component of the success of Expedia's business depends on its ability to maintain its existing, as well as build new, relationships with travel suppliers and GDS partners.

Benefits to Travel Suppliers. Expedia strives to deliver value to its travel suppliers through a wide range of innovative, targeted merchandising and promotional strategies designed to increase their revenues, while simultaneously reducing their marketing transaction and customer service costs. Expedia maintains a supplier relations team, which consists of a staff of account executives and market managers who work directly with travel suppliers to increase the marketing of their travel products through Expedia's brands and businesses.

In addition, Expedia has developed proprietary, supplier-oriented technology that streamlines the interaction between some of its websites and hotel property management systems, making it easier and more cost-effective for hotels to manage reservations made through certain Expedia brands and businesses. Through "direct connect" technology, hotels can upload information about available products and services and rates directly from their central reservation systems into certain Expedia websites, as well as automatically confirm hotel reservations made by Expedia customers. In the absence of direct connect technology, both of these processes are generally completed manually. There are currently more than one thousand hotels in North America that have adopted direct connect technology and Expedia expects that this number will increase in the future.

Travel Supplier and Distribution Partner Revenues. A portion of Expedia's agency revenues are derived from compensation paid by travel suppliers and GDS partners for bookings made through Expedia's websites. Expedia generally negotiates these commissions and fees with its travel suppliers and GDS partners. Over the last several years travel suppliers have generally reduced or eliminated commissions and payments to travel agents and other travel intermediaries.

Industry and Competition

Expedia's brands and businesses compete in rapidly evolving and intensely competitive markets. According to industry sources, combined global travel sales (for the United States, Europe and the Asia Pacific region) in 2004 were approximately $875 billion, approximately $90 billion of which were transacted online. Combined travel sales for Europe and the Asia Pacific region in 2004 were approximately $529 billion, approximately $33 billion of which were transacted online. Industry sources predict that online travel sales in Europe and the Asia Pacific region will grow by as much as approximately 40% over the next several years. The relatively low percentage of total travel sales transacted online in international markets indicates that these markets represent especially large opportunities for Expedia and those of its competitors that wish to expand their brands and businesses abroad.

Expedia's competitors include online and offline travel companies that target leisure and corporate travelers, travel supplier direct websites and other channels, consolidators and wholesalers of travel products and services and other companies offering travel search engines, content or advice, in each case, on a local, regional, national and/or international basis.

Expedia believes that maintaining and enhancing its brands is a critical component of its efforts to compete with its competitors. Expedia's brands and businesses differentiate themselves from competitors primarily on the basis of quality and breadth of travel products made available, channel features and usability, price, customer service and quality of travel planning content and advice. The emphasis on one or more of these factors varies, depending on the brand or business and the related target demographic.

Expedia's brands and businesses face competition from travel supplier direct websites. In some cases, supplier direct channels offer advantages to customers, such as loyalty programs or lower transaction fees. Expedia believes that its websites, which feature travel products and services from numerous travel brands (as opposed to a single brand), have greater appeal in the case of brand-agnostic customers, a much larger demographic than brand-loyal customers.

Expedia's business is generally sensitive to changes in the competitive landscape, including the emergence of new competitors, most recently, the travel meta-search engine. Travel meta-search engines aggregate pricing and other information from other travel websites, and present this information in the form of consolidated, comparative search results to their users. Consumers can purchase travel products and services directly from travel suppliers by clicking-through to their branded websites through search results or links posted on the travel meta-search engine. TripAdvisor competes with other travel search engine companies and traditional offline travel directories.

Some of Expedia's competitors may be able to make products and services from travel suppliers available on more favorable terms based on a variety of factors, including their willingness to accept lower revenues, better relationships with suppliers and their vertical integration with GDSs and/or travel suppliers. Expedia expects its current and future competitors to continually revise and improve their business models. Travel product and service providers that work with Expedia and its online competitors may introduce pricing or other business changes that could adversely affect Expedia's attractiveness to travel suppliers.

Marketing

Expedia's marketing programs, initiatives and related spending accrue to the primary goals of building and maintaining individual brand propositions across its portfolio of brands, driving traffic and conversion through its various brands and businesses, lowering ongoing customer acquisition costs, increasing market share and strategically positioning its various brands and businesses in relation to one another. The long-term success of Expedia depends on its continued ability to increase the overall number of customer transactions in a cost-effective manner.

Expedia's marketing programs and initiatives primarily include direct and/or personalized customer communications, search engine marketing and online and offline advertising. In addition, the Expedia-branded websites operate the travel channel on the MSN.com website in the U.S. and MSN websites in Canada, the United Kingdom, Italy, France and Germany. The related MSN contract continues through June 2005. Expedia is currently negotiating the renewal of this agreement with Microsoft. However, no assurances can be provided that Expedia will be able to renew the agreement on acceptable terms, if at all.

Expedia also makes use of affiliate marketing. The Expedia.com and Hotels.com-branded websites receive bookings from consumers who have clicked-through to the respective websites through links posted on affiliate partner websites through affiliate programs, including the Interactive Affiliate Network, or *IAN.com*. As of December 31, 2004, Expedia had affiliation agreements with thousands of third party affiliate partners, including a number of leading travel companies, pursuant to which it pays affiliate partners a commission for bookings originated from their websites. Affiliate partners can maketravel products and services available through an Expedia-branded website, a co-branded website or their own private label website. Expedia also provides its affiliates with industry-leading technology and access to a wide range of products and services.

Expedia Regulation

Expedia must comply with laws and regulations relating to the travel industry and the provision of travel services, including registration in various states as "sellers of travel" and/or vacation clubs and compliance with certain disclosure requirements and participation in state restitution funds. In addition, Expedia businesses are subject to regulation by the U.S. Department of Transportation and must comply with various rules and regulations governing the provision of air transportation, including those relating to advertising and accessibility.

Expedia is currently subject and, as Expedia continues to expand the reach of its brands and businesses into the European, Asia-Pacific and other international markets, will become increasingly subject, to laws and regulations applicable to travel agents in those markets, including laws regulating the provision of travel packages and industry specific value-added tax regimes. For example, the EEC Council Directive on Package Travel Package Holidays and Package Tours imposes various obligations upon marketers of travel packages, such as disclosure obligations to consumers and liability to consumers for improper performance of the package, including supplier failure. Laws applicable to travel agents in these markets are subject to change at any time and authorities in these markets are regularly considering new legislation, as well as changes in the application of existing laws and regimes applicable to travel agents and the travel industry.

QuickLinks

Exhibit 99.2

Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT OVERVIEW

IAC 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 currently operates a diversified portfolio of specialized and global brands in the retailing, services, media & advertising, membership & subscriptions and travel industries. IAC enables billions of dollars of consumer-direct transactions for products and services via the internet and telephone. 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. and International;
- Services, which includes Ticketing, Financial Services and 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. IAC completed the Spin-Off on August 9, 2005. Following the Spin-Off:

- Expedia consists of the travel and travel-related businesses and investments that IAC currently operates (other than Interval and TV Travel Shop ("TVTS"), which were not spun-off by IAC with Expedia) and
- IAC continues 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 will issue for the Ask Jeeves acquisition, thus effectively offsetting a substantial portion of the dilution from the transaction. The Media & Advertising sector will include the results of Ask Jeeves beginning in the third quarter of 2005.

Further, on April 1, 2005, IAC completed it 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. The U.S. Retailing segment will include the results of Cornerstone Brands beginning in the second quarter of 2005.

Set forth below are the contributions made by our various sectors, our emerging businesses and corporate expenses to consolidated revenue, operating income and Operating Income Before Amortization (as defined in IAC's Principles of Financial Reporting) for the years ended December 31, 2004 and 2003 (rounding differences may occur):

	Twelve Months Ended December 31,			
	2004	Percentage of total	2003	Percentage of total
	(Dollars in millions)			
Revenue:				
Retailing	$ 2,247.9	37%	$ 2,112.1	40%
Services	1,258.8	21%	1,093.3	21%
Media & Advertising	30.5	1%	28.7	1%
Membership & Subscriptions	671.5	11%	608.2	12%
Expedia (on a comparable net basis)(a)	1,843.0	31%	1,400.2	27%
Emerging Businesses	6.6	0%	—	0%
Intersegment elimination	(27.1)	0%	(19.2)	0%
Total	$ 6,031.2	100%	$ 5,223.3	100%
As reported:				
Expedia(a)	$ 1,843.0	31%	$ 2,339.8	38%
Total	$ 6,031.2	100%	$ 6,162.9	100%

(a) As part of the integration of Expedia's businesses, Hotels.com conformed its merchant hotel business practices with those of the other Expedia businesses. As a result, beginning January 1, 2004, IAC commenced prospectively reporting revenue for Hotels.com on a net basis, consistent with Expedia.com's historical practice. Accordingly, we are including prior year results as though Hotels.com had reported revenue on a net basis for the purpose of better comparability. There was no impact to operating income or Operating Income Before Amortization from the change in reporting.

	Twelve Months Ended December 31,			
	2004	Percentage of total	2003	Percentage of total
	(Dollars in millions)			
Operating Income (Loss):				
Retailing	$ 144.7	59%	$ 120.9	31%
Services	(39.6)	(16%)	112.5	29%
Media & Advertising	(47.1)	(19%)	(69.8)	(18%)
Membership & Subscriptions	97.9	40%	95.5	24%
Expedia	424.9	172%	326.1	83%
Emerging Businesses	(5.0)	(2%)	(5.9)	(2%)
Corporate and other	(328.4)	(133%)	(186.8)	(48%)
Total	$ 247.4	100%	$ 392.5	100%

	Twelve Months Ended December 31,			
	2004	Percentage of total	2003	Percentage of total
	(Dollars in millions)			
Operating Income Before Amortization:				
Retailing	$ 199.0	20%	$ 173.0	20%
Services	203.1	20%	158.2	19%
Media & Advertising	(13.3)	(1%)	(19.9)	(2%)
Membership & Subscriptions	139.8	14%	143.3	17%
Expedia	566.7	57%	472.1	56%
Emerging Businesses	(1.1)	0%	(3.8)	0%
Corporate and other	(91.8)	(9%)	(76.3)	(9%)
Total	$ 1,002.4	100%	$ 846.6	100%

Principal Products, Services, Sources of Revenue

For the years ended December 31, 2004 and 2003, Expedia was our largest financial contributor. Through its various businesses and investments, Expedia makes available a variety of travel-related products and services from a wide array of travel suppliers on a stand-alone and package basis, through its merchant and agency businesses. During 2004, revenues from the worldwide booking of hotel rooms, particularly merchant hotel rooms, continued to be an important part of Expedia's business.

Following the Spin-Off, we expect that Retailing and Services sectors will be our largest financial contributors. In Retailing, the majority of our revenue, operating income and Operating Income Before Amortization are derived from the sale of merchandise promoted through our television programming or in catalogs via telephone or the internet. We take inventory of most of the products we sell through the Retailing sector.

Our Ticketing segment was the largest financial contributor to our Services sector for the years ended December 31, 2004 and 2003. Our Ticketing business is primarily an agency business that sells tickets for events on behalf of our clients and retains a convenience charge and order processing fee for our services. We sell these tickets through a combination of websites, telephone services and ticket outlets.

The results of our Financial Services and Real Estate, Teleservices and Home Services segments are also reflected in our Services sector, each of which is generally compensated on a fee basis. Our Financial Services and Real Estate businesses generally are compensated on a fee basis by the lenders, real estate brokers and agents who participate in our services. One of these businesses, LendingTree Loans, formerly known as Home Loan Center, principally derives its revenues from fees from borrowers and the sale of loans into the secondary markets. Our Teleservices business is generally compensated on a fee basis, based on the level and type of services provided.

Our Media & Advertising sector is comprised of Citysearch and Evite. These businesses offer information and services that target the advertising market, with a focus on local advertising, and are generally compensated through performance and volume related measures.

The results of our Vacations, Personals and Discounts segments are reflected in our Membership & Subscriptions sector. The revenues of our Vacations business are generated primarily from fees paid by members in connection with exchange and rental transactions and membership fees. Our Personals business offers its own interactive services on a membership/subscription basis. The revenues of our Discounts business are generated from the marketing of coupon books, discounts and merchant promotions, as well as discount memberships and packages in published and online formats.

Our businesses rely heavily on technology to deliver outstanding services to our customers. We seek to make available a broad range and unique selection of products and services to our customers, as well as relevant information about those products and services and convenience and ease of use, including first class customer service, combined with great value and a unique merchant sensibility.

Channels of Distribution; Marketing Costs

We market and offer products and services directly to customers through branded websites, pay television and broadcast television stations, telephone sales and membership programs, allowing our customers to transact directly with us in a convenient manner. We have made, and expect to continue to make, substantial investments in online and offline advertising to build our brands and drive traffic to our brands and businesses.

We also pay to market and distribute our services on third party distribution channels, such as internet portals and search engines. In addition, some of our businesses manage affiliate programs, pursuant to which we pay commissions and fees to third parties based on revenue earned. In many cases, these distribution channels also offer their own products and services, as well as those of other third parties, that compete with those made available and offered by our businesses.

The cost of acquiring new customers through online and offline third party distribution channels has increased, particularly in the case of online channels as internet commerce continues to grow and competition in the segments in which IAC's businesses operate increases. Also, we continue to place an increased emphasis on retaining current customers. As a result of these continued efforts, we expect sales and marketing expense as a percentage of revenue to continue to increase. While sales and marketing expense as a percentage of revenue (on a comparable net basis) increased from approximately 17% in 2003 to approximately 20% in 2004, Operating Income Before Amortization margin (on a comparable net basis) increased from approximately 16% in 2003 to approximately 17% in 2004.

Access to Supply

Our various businesses provide supplier partners with important customer acquisition channels, in some cases through multiple IAC brands, and we believe that the ability of our supplier partners to reach a large audience through our services is a great benefit. Many of our businesses, including Expedia, Retailing, and our Financial Services and Real Estate businesses, offer our customers the choice of multiple suppliers in one setting. While we aim to build and maintain strong relationships with our supplier partners, we may not succeed in these efforts and there is always the risk that certain supplier partners may not make their products and services available to us in the future, including suppliers of travel services, suppliers of merchandise sold through our Retailing business, parties for whom we sell tickets through our Ticketing business and financial service and real estate providers that participate on various services operated through our Financial Services and Real Estate businesses. Additionally, in certain industries in which IAC's businesses operate there has been increased emphasis by supplier partners on their own direct sale of products and services through their own direct channels. We are unable to predict if this will develop in other industries in which IAC's businesses operate.

International Operations

We continue to place an emphasis on international markets as we look to further expand the presence of certain of our brands and businesses abroad, particularly in Europe, given the large consumer marketplace for the goods and services that these brands and businesses offer. Although newer foreign markets generally lag the U.S. in online adoption, we believe they generally exhibit similar characteristics of the U.S. in regards to customer acceptance of an online marketplace. As a percentage of total IAC revenue (on a comparable net basis), international operations represented approximately 16%, 14% and 11% in 2004, 2003 and 2002, respectively.

Economic and Other Trends and Events; Industry Specific Factors

Most of IAC's businesses are sensitive to the rate at which the purchase of products and services migrate online. For the online components of IAC's various businesses, revenues are generally more meaningfully impacted by the rate at which the purchase of related products or services migrates online globally than the rate at which the related industry grows, although this could change as online adoption progresses. In addition, online migration of traditional offline businesses, such as Retailing, Ticketing and Financial Services and Real Estate, favorably impacts results, as online sales transactions are processed with little or no increased costs, as compared to offline sales for which increased call center and other costs are incurred. We also expect rates of online adoption to grow internationally and we continue to devote significant resources to international expansion efforts. Our Financial Services and Real Estate businesses are impacted by the demand for mortgage loans in the U.S. and the strength of the U.S. housing market.

Results of Operations for the Year Ended December 31, 2004 compared to the Year Ended December 31, 2003

IAC Consolidated Results

Revenue decreased $131.7 million, or 2%, although on a comparable net basis, revenue increased $807.9 million, or 15%. As previously noted, IAC began to report revenues from Hotels.com on a net basis in the first quarter of 2004, and we have provided prior year results as though they had been reported on a net basis for better comparability. Growth was primarily driven by revenue increases of $442.8 million, or 32%, from Expedia, as well as increased revenue of $165.5 million from the Services sector, which includes the full year results of LendingTree, which was acquired in August 2003, and $135.8 million, or 6%, from the Retailing sector.

Gross profit increased $514.8 million, or 19%, reflecting improved operating results of Expedia, driven by the merchant hotel business, the air business and packages, and the Retailing sector, which was driven primarily by higher margins at HSN U.S.

Selling and marketing expenses increased $272.5 million, or 30%. As a percentage of comparable net revenue, selling and marketing expense increased to 20% in 2004 from 17% in 2003 reflecting, in part, the impact of acquisitions, as LendingTree, Hotwire and TripAdvisor generally have higher selling and marketing expenses as a percentage of revenue than IAC overall. In addition, Expedia's selling and marketing expense increased as a percentage of revenue as Expedia placed greater emphasis on its international businesses, which have a higher selling and marketing cost relative to revenue due to earlier stages of development, and the inclusion of Hotwire in the 2004 results.

General and administrative expenses increased $51.1 million, or 8%, due primarily to increased headcount at certain Expedia companies and the inclusion of the full year of LendingTree, Hotwire and Entertainment Publications in the 2004 results. These increases were partially offset by a decrease at Expedia due to the reclassification of certain general and administrative expenses to cost of sales as a result of Hotels.com reporting revenues on a net basis consistent with Expedia.com's historical practices.

The 2004 restructuring charge is principally comprised of (1) asset impairments and severance costs related to the shut down of HSN's Salem, VA facility as HSN migrates certain operations to its new fulfillment center in Tennessee and (2) severance and other costs associated with the elimination of certain non-core business lines at the Personals segment. These charges were partially offset by the reversal of reserves related primarily to the favorable resolution of a contractual arrangement with a supplier, as well as the settlement of an uncollectible receivable that had been written off in 2003 related to the restructuring of HSN's U.K. offices. The 2003 restructuring charge principally consists of (1) a write-down of a receivable from the 2002 restructuring of HSN's U.K. offices, (2) facility closure costs at uDate's Derby, U.K. facility as the back-office operations of uDate were combined with Match International, and (3) costs related to employee terminations due principally to the decline in the teleservicing market that resulted in excess capacity. Such 2003 restructuring charges were offset by the reversals of contingent costs for terminated employees, which are no longer probable of occurrence.

Depreciation expense increased $8.0 million, or 5%, due primarily to capital expenditures of $221.2 million during the year offset by certain fixed assets becoming fully depreciated throughout 2004. Comparisons to prior year were impacted by a $4.7 million write-down of packaging technology at Hotels.com recognized in 2003 as a result of Hotels.com adopting Expedia.com's packaging technology.

Operating Income Before Amortization increased $155.8 million, or 18%, due primarily to the improved operating results of Expedia, the Retailing sector and the Ticketing segment as well as the inclusion of LendingTree in the 2004 results within the Services sector.

In the fourth quarter of 2004, the Company recorded an impairment charge related to the write-down to the goodwill of the Teleservices segment of $184.8 million, before tax, which was recorded as a component of operating income in the accompanying consolidated statement of operations. The write-down was determined by comparing the fair value of the business and the implied value of the goodwill with the carrying amounts on the balance sheet. The write-down primarily resulted from continued competition and macroeconomic factors which have negatively impacted industry valuations. The goodwill impairment charge recorded in 2004 resulted from the Company's annual impairment review for goodwill and intangible assets, which took place in the fourth quarter in connection with the preparation of its year-end financial statements.

Operating income decreased $145.1 million, or 37%, reflecting the goodwill impairment charge of $184.8 million noted above, as well as increased non-cash compensation of $113.5 million, or 89%, and increased amortization of intangibles of $47.7 million, or 18%, partially offset by a decrease in non-cash distribution and marketing expense of $33.4 million, or 65%. This net increase in expenses offset the increase in Operating Income Before Amortization discussed above. The increase in non-cash compensation principally resulted from a full year of expense related to unvested stock options, warrants and restricted stock assumed in IAC's 2003 mergers with its formerly publicly traded subsidiaries and the acquisition of LendingTree included in 2004 results. This non-cash compensation is recorded over the remaining vesting period of the equity awards and therefore will decline over time as the awards vest. The increase in the amortization of intangibles was principally due to IAC's 2003 mergers with Expedia.com and Hotels.com, as well as the acquisition of LendingTree in August 2003. The decrease in the amortization of non-cash distribution and marketing expense was principally due to the termination of the Hotels.com distribution agreement with Travelocity in September 2003.

Interest income increased $15.7 million in 2004 compared with 2003 as a result of higher interest rates and increased income from the Vivendi Universal Entertainment LLLP ("VUE") preferred securities. Interest expense decreased $5.9 million in 2004 compared to 2003 due primarily to the repurchase in 2003 of $92.2 million of the Company's $500 million $6^3/4$% Senior Notes issued in 1998, as well as the impact of interest rate swap arrangements entered into in late 2003 and 2004 which effectively changed the interest rate on a portion of the debt.

The Company realized equity income from its investment in VUE in 2004 of $16.2 million compared with a loss in 2003 of $224.5 million. During the first quarter of 2003, IAC received the audited financial statements of VUE for the year ended December 31, 2002, which disclosed that VUE had recorded an impairment charge for goodwill and intangible assets and other long-lived assets of $4.5 billion in the period May 7, 2002 to December 31, 2002 based upon VUE management's review of the estimated fair value of VUE as of December 31, 2002. Because of delays in VUE's financial reporting, IAC records its 5.44% proportionate share of the results of VUE on a one-quarter lag. The charge taken by IAC in the first quarter of 2003 was approximately $245 million, before a tax benefit of $96 million.

Equity in the income of unconsolidated subsidiaries and other income (expense) increased by $21.8 million due primarily to (1) a $10.9 million increase in the equity income of unconsolidated subsidiaries of HSN International, including TVSN and Jupiter Shop Channel, (2) losses on the repurchase of bonds of $8.6 million recorded in the 2003 period and (3) an increase in foreign currency exchange gains.

The effective tax rate from continuing operations was 45% in 2004 as compared to 28% in 2003. The 2004 rate is higher than the federal statutory rate of 35% due principally to the impairment of goodwill that is not deductible for tax purposes, state and local taxes and the amortization of non-deductible intangible assets, partially offset by the benefit of utilization of foreign tax credits. The 2003 rate was lower than the federal statutory rate of 35% due principally to the reversal of valuation allowances and a decrease in deferred tax liabilities due to a change in the effective state tax rate. The reversal of valuation allowances in 2003 was based on an assessment that it was probable that the related tax benefits would be realized. The effective state tax rate decreased as a result of IAC's mergers with its formerly publicly traded subsidiaries in 2003 and the Vivendi transaction in 2002. Partially offsetting these decreases in income taxes were earnings in foreign jurisdictions that were taxed at rates higher than 35% and amortization of non-deductible intangible assets.

Minority interest principally represents minority ownership in HSE-Germany in 2004 and 2003, as well as the public's minority ownership in Ticketmaster, Hotels.com and Expedia.com until the date of their respective buy-ins in 2003. Minority interest in the income of consolidated subsidiaries decreased $50.0 million due primarily to the buy-out of the respective minority interests as a result of IAC's 2003 mergers with its formerly publicly traded subsidiaries.

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. During the second quarter of 2005, TV Travel Shop ceased the sale of third-party travel products through its broadcast programming. In the second quarter of 2003, USA Electronic Commerce Solutions ("ECS"), Styleclick, Inc. and Avaltus, Inc., a subsidiary of PRC, ceased operations. Accordingly, the results of operations and statement of position of these businesses are presented as discontinued operations for all periods presented. The loss from discontinued operations in 2004 was $53.0 million, principally due to the losses at TV Travel Shop as well as an adjustment in the second quarter of 2004 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 liabilities of our investment in Styleclick were originally reversed. Income from discontinued operations in 2003 was $33.9 million, principally due to a tax benefit recognized due to the shut-down of Styleclick.

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

	Twelve Months Ended December 31,		
	2004	2003	Growth
	(Dollars in millions, rounding differences may occur)		
Revenue:			
Retailing:			
U.S.	$ 1,905.9	$ 1,763.7	8%
International	342.0	348.4	(2%)
Total Retailing	2,247.9	2,112.1	6%
Services:			
Ticketing	768.2	743.2	3%
Financial Services and Real Estate	189.8	55.8	240%
Teleservices	293.9	294.3	0%
Home Services	6.9	N/A	N/A
Total Services	1,258.8	1,093.3	15%
Media & Advertising	30.5	28.7	6%
Membership & Subscriptions:			
Vacations	256.8	222.8	15%
Personals	198.0	185.3	7%
Discounts	217.9	201.5	8%
Intra-sector elimination	(1.3)	(1.4)	NM
Total Membership & Subscriptions	671.5	608.2	10%
Expedia (on a comparable net basis)(a)	1,843.0	1,400.2	32%
Emerging Businesses	6.6	—	N/A
Intersegment elimination	(27.1)	(19.2)	(41%)
Total	$ 6,031.2	$ 5,223.3	15%
As reported:			
Expedia(a)	$ 1,843.0	$ 2,339.8	(21%)
Total	$ 6,031.2	$ 6,162.9	(2%)

(a) As part of the integration of Expedia's businesses, Hotels.com conformed its merchant hotel business practices with those of the other Expedia businesses. As a result, beginning January 1, 2004, IAC commenced prospectively reporting revenue for Hotels.com on a net basis, consistent with Expedia.com's historical practice. Accordingly, we are including prior year results as though Hotels.com had reported revenue on a net basis for the purpose of better comparability. There was no impact to operating income or Operating Income Before Amortization from the change in reporting.

	Twelve Months Ended December 31,		
	2004	2003	Growth
	(Dollars in millions, rounding differences may occur)		
Operating Income (Loss):			
Retailing:			
U.S.	$ 141.7	$ 117.5	21%
International	3.0	3.4	(12%)
Total Retailing	144.7	120.9	20%
Services:			
Ticketing	137.9	116.5	18%
Financial Services and Real Estate	(7.6)	(16.5)	54%
Teleservices	(167.7)	12.5	NM
Home Services	(2.2)	N/A	N/A
Total Services	(39.6)	112.5	NM
Media & Advertising	(47.1)	(69.8)	33%
Membership & Subscriptions:			
Vacations	65.0	41.0	59%
Personals	18.8	14.1	33%
Discounts	14.0	40.4	(65%)
Total Membership & Subscriptions	97.9	95.5	2%
Expedia	424.9	326.1	30%
Emerging Businesses	(5.0)	(5.9)	16%
Corporate and other	(328.4)	(186.8)	(76%)
Total	$ 247.4	$ 392.5	(37%)

	Twelve Months Ended December 31,		
	2004	2003	Growth
	(Dollars in millions, rounding differences may occur)		
Operating Income Before Amortization:			
Retailing:			
U.S.	$ 194.7	$ 168.3	16%
International	4.3	4.7	(9%)
Total Retailing	199.0	173.0	15%
Services:			
Ticketing	164.3	144.5	14%
Financial Services and Real Estate	21.4	1.2	1,690%
Teleservices	17.1	12.5	37%
Home Services	0.3	N/A	N/A
Total Services	203.1	158.2	28%
Media & Advertising	(13.3)	(19.9)	33%
Membership & Subscriptions:			
Vacations	90.2	66.2	36%
Personals	27.6	31.0	(11%)
Discounts	22.0	46.1	(52%)
Total Membership & Subscriptions	139.8	143.3	(2%)
Expedia	566.7	472.1	20%
Emerging Businesses	(1.1)	(3.8)	72%
Corporate and other	(91.8)	(76.3)	(20%)
Total	$ 1,002.4	$ 846.6	18%
Operating Income Before Amortization as a percentage of revenue (on a comparable net basis)	17%	16%	

Retailing

Revenues, Operating Income Before Amortization and operating income for the Retailing sector increased year over year due to improved results at HSN U.S. offset partially by declines at HSE-Germany.

U.S.

Revenues grew 8% to $1.9 billion, primarily as a result of a 10% increase in average price point and a 150 basis point decline in return rates, partially offset by a 3% decrease in units shipped. As part of this growth, HSN.com increased revenues by 21% over the prior year. Overall, the product mix shifted from 2003 due to a decrease in sales of Jewelry and increases in sales of Health and Beauty and Home Fashions in 2004. This shift increased the average price point, as Home Fashions, which comprise a wide array of items such as home furnishings and accessories and cookware, generally carry higher sales prices and lower return rates, as compared to Jewelry. In addition the average price point increased for most product categories year over year.

Operating Income Before Amortization grew 16% to $194.7 million, due primarily to the growth in revenue, and an increase in gross profit margins by 20 basis points, due primarily to the shift in product mix to products that carry lower return rates, as well as margin improvements within the product mix. Lower return rates impact both revenue and gross margins, as lower returns result in lower warehouse processing costs and lower inventory mark-downs for goods that are not resalable at full retail price. The impact of the decline in overall return rates on gross profit was $13.5 million. Operating Income Before Amortization was also impacted by increased customer service costs, including costs relating to HSN's new distribution facility in Tennessee, which opened in October 2004, and by results of the infomercial and catalog businesses, which have lower operating margins relative to the television business. The 2004 results were also impacted by a $3.5 million impairment charge related to the closure of the warehouse facility in Salem, VA and the reversal of a reserve of $2.5 million as a result of the final resolution of a legal dispute.

Operating income grew 21% to $141.7 million, due primarily to the increase in Operating Income Before Amortization described above.

As noted in previous Company filings, the majority of the USA Broadcasting stations sold to Univision were located in the largest markets in the country and aired HSN on a 24-hour basis. As of January 2002, HSN switched its distribution in these markets directly to cable carriage. As a result, HSN incurred incremental costs to obtain carriage lost in the disengagement markets and conduct marketing activities to inform viewers of new channel positioning for the HSN service. Higher incremental costs were incurred in 2002, so disengagement costs were presented separately from HSN results when comparing 2003 results to 2002. Comparable costs were incurred in 2004 in relation to 2003, and HSN's results are presented including disengagement costs in each period presented. Disengagement expenses were $18.0 million in 2004 compared to $22.0 million in 2003, principally reflecting a decrease in marketing expenses.

International

Revenues decreased 2% to $342.0 million in U.S. dollars, 11% on a local currency basis, due primarily to decreases at HSE-Germany due to the poor results of the Wellness product line compared to 2003.

Operating Income Before Amortization decreased 9% to $4.3 million for 2004 primarily reflecting decreased revenues at HSE-Germany noted above. In addition, 2004 results were favorably impacted by a settlement received by HSN International on an uncollectible receivable that had been previously written off.

Operating income declined 12% to $3.0 million, due to the decrease in Operating Income Before Amortization described above.

Services

Revenues and Operating Income Before Amortization for the Services sector increased year over year due to the inclusion of the full year results of LendingTree, which was acquired in August 2003, improved results at the Ticketing segment and the inclusion of Home Services, which was acquired in September 2004. Operating income decreased from 2003 due primarily to a fourth quarter goodwill impairment charge of $184.8 million before tax, recorded at the Teleservices segment.

Ticketing

Revenue grew 3% to $768.2 million, reflecting a 4% increase in the average revenue per ticket, partially offset by a 2% decrease in the number of tickets sold. The increase in average revenue per ticket resulted from favorable exchange rates from foreign markets and higher convenience and processing fees. The decrease in the number of tickets sold is due primarily to the weakness in domestic concert ticket sales and the effects of the NHL lockout. International revenue increased 28%, 17% on a local currency basis, due primarily to the recent acquisition in Sweden, increased sales in the United Kingdom and Ireland and the Athens 2004 Summer Olympics license fee.

Operating Income Before Amortization increased 14% to $164.3 million, reflecting the increase in revenues and increased distribution efficiencies, which were mostly offset by higher depreciation expense, cost of technology and ticket royalties. As the company continues to develop enhanced products to sell more tickets for its clients, technology expenses are expected to increase; ticket royalties are also expected to continue to increase as a percentage of revenue. To date the company has offset these increases with other distribution efficiencies. Operating Income Before Amortization in 2004 and 2003 benefited from the favorable resolution of non-income tax contingencies of $5.0 million and $3.7 million, respectively.

Operating income increased 18% to $137.9 million, reflecting the increase in Operating Income Before Amortization described above as well a $0.8 million decrease in the amortization of intangibles and a $0.7 million decrease in non-cash distribution and marketing expense.

Financial Services and Real Estate

Financial Services and Real Estate consists of the results of LendingTree, Inc., which was acquired in August 2003, and the brands and businesses it operates. As a point of comparison, the discussion below compares the results of this segment for 2004 to the full year period in 2003.

Revenue increased 19% to $189.8 million in 2004 as compared to 2003 as the company continued to grow its non-refinance mortgages business. As expected, a rising interest rate environment has caused a shift towards lending products other than refinance mortgages, LendingTree's primary product in 2003. The company reported a 108% increase in revenue from purchase mortgages, a 41% increase in revenue from closed real estate transactions, a 17% increase in revenue from home equity loans and a 158% increase in other services revenue. These revenue increases were partially offset by a 39% decrease in revenue from refinance mortgage activity. The increase in other service revenue primarily relates to the acquisition of GetSmart in December 2003, iNest in October 2004 and Home Loan Center (now called LendingTree Loans) in December 2004.

While the number of loan and real estate requests transmitted increased by just 4%, driven by acquisitions and growth in purchase mortgage and real estate categories, the dollar volume of requests transmitted increased 19%, reflecting a shift in the mix towards higher value purchase mortgages and real estate transactions. The number and dollar volume of closed transactions decreased 13% and 14%, respectively in 2004, reflecting the expected impact caused by the drop off in refinance mortgage activity from late 2003 and throughout 2004. This impact was offset in part by the higher mix of purchase mortgage and real estate closings in 2004, which have higher per-transaction values than other products.

Teleservices

Revenue remained comparable to the prior year despite the loss of two key clients that ceased to outsource outbound call volume. The company was able to partially offset these revenue losses by increases in existing client programs and new business. PRC and the industry continue to face significant pricing pressure and increased competition.

Operating Income Before Amortization increased $4.6 million, or 37%, to $17.1 million due to lower operating expenses, including lower depreciation expense and fixed costs, as management continued to focus on improving operating efficiencies. These savings were partially offset by lower contribution margins due to pricing pressures.

Operating (loss) income decreased by $180.2 million to a loss of $167.7 million due primarily to a fourth quarter goodwill impairment charge of $184.8 million before tax, which was recorded as a component of operating income (loss) in the accompanying consolidated statement of operations. The write-down was determined by comparing the fair value of the business and the implied value of the goodwill with the carrying amounts on the balance sheet. The write-down primarily resulted from continued competition and macroeconomic factors which have negatively impacted industry valuations. The goodwill impairment charge recorded in 2004 resulted from the Company's annual impairment review for goodwill and intangible assets, which took place in the fourth quarter in connection with the preparation of our year-end financial statements. The impairment charge was partially offset by the increase in Operating Income Before Amortization described above. In addition, during 2003 the company recorded a pretax charge of $2.1 million related to real estate and software write-downs which positively impacts year over year comparisons.

Revenue for 2004 and 2003 includes $23.3 million and $17.8 million, respectively, for services provided to other IAC businesses.

Media & Advertising

Revenues increased $1.8 million, or 6%, to $30.5 million, primarily due to improved results at Evite. Citysearch's revenues remained flat due to the shift of its business model from building web sites for local businesses for an annual fee to the introduction of a new Pay-For-Performance business model in June 2003. The Pay-For-Performance business built momentum throughout 2004 resulting in increased revenues for Citysearch in the second half of 2004 driven by both the addition of new Pay-for-Performance merchants and increased traffic.

Operating Income Before Amortization improved 33% to a loss of $13.3 million, resulting primarily from narrowed losses at Citysearch due principally to headcount reductions.

Operating losses improved 33% to $47.1 million, primarily reflecting the increase in Operating Income Before Amortization described above and was further impacted by a $14.2 million decrease in the amortization of intangible assets.

Membership & Subscriptions

Revenues for the Membership & Subscriptions sector increased year over year due to membership and subscriber growth at the Vacations and Personals segments, respectively, as well as the inclusion of the full year results of the Discounts segment. Operating Income Before Amortization decreased from 2003 due primarily to weakness in the Discounts core fundraising channels, partially offset by improved results in the Vacations segment. Operating income increased year over year from improved results in Vacations and Personals, offset by a decline in Discounts.

Vacations

Revenue grew 15% to $256.8 million, reflecting growth in membership and transaction revenues. The increase in membership revenues was due primarily to renewal memberships, and the increase in transaction revenue was due primarily to an increase in volume, as well as higher average fees. The number of active members at December 31, 2004 increased 6% to 1.7 million.

Operating Income Before Amortization and operating income increased 36% and 59%, respectively, to $90.2 million and $65.0 million, respectively, due to an increase in gross profit margins, partially offset by increased general and administrative expenses associated with increased headcount.

Personals

Revenue grew 7% to $198.0 million, reflecting a 5% increase in paid subscribers to 982.8 thousand, partially offset by a decrease in the average revenue per subscriber due to lower package prices implemented in 2003 that remained in place for most of 2004. International subscribers grew 37% over the prior year, excluding declines at uDate of 28%.

Operating Income Before Amortization decreased 11% to $27.6 million in 2004 and was negatively impacted by higher customer acquisition costs, increased spending for international operations and charges relating to management transition and the elimination of certain non-core business lines.

Operating income increased 33% to $18.8 million, reflecting the decrease in Operating Income Before Amortization described above, offset by a $3.3 million decrease in non-cash distribution and marketing expense and a $4.8 million decrease in the amortization of intangibles which resulted from certain intangibles becoming fully amortized in 2004.

Discounts

Revenue grew 8% to $217.9 million in 2004 due to the inclusion of the full year results of Entertainment Publications, which was acquired in March 2003.

Operating Income Before Amortization and operating income decreased 52% and 65%, respectively, to $22.0 million and $14.0 million, respectively, due to weakness in the company's core fundraising channels. Entertainment Publications' results are significantly seasonal with the majority of its profitability experienced in the fourth quarter. In addition, Operating Income Before Amortization and operating income were negatively impacted by the sale of EPI's Australian and New Zealand operations in August 2003, which contributed $5.6 million in Operating Income Before Amortization and operating income in 2003.

Expedia

The following discussion is based upon comparable net revenue amounts:

Revenue grew 32% to $1.8 billion, primarily driven by the merchant hotel business, the air business and packages, all of which benefited from the inclusion of Hotwire as of November 5, 2003. The revenue increase was also due in part to the inclusion, as of April 27, 2004, of the results of TripAdvisor, which contributed revenues of $16.9 million in 2004, net of intercompany eliminations.

Merchant hotel revenue increased 24% due primarily to 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 booked as a component of packages, increased 21% to 31.7 million, reflecting continued growth in international demand, the inclusion of the results of Hotwire and growth in Expedia's private label business. Revenue per room night increased 3%, due primarily to increases in average daily room rates, which increase was partially offset by a decline in merchant hotel raw margins (defined as merchant hotel net revenue as a percent of gross bookings).

Expedia's domestic merchant hotel business continues to operate in a more challenging environment than in 2003, due primarily to increased competition from third party distributors, increased promotion by hotel chains of their own direct websites and higher overall occupancy rates, resulting in decreased availability of favorably priced travel products and services compared with the prior year period. These trends are generally expected to continue.

Revenue from Expedia's air business increased 34% from 2003. While air revenue per transaction was lower, air transaction volume increased over the prior year period, driven by domestic and international ticket sales and the inclusion of the results of Hotwire. The number of air tickets sold through Expedia's brands and businesses increased by 4.7 million, or 33%, as compared to the prior year.

Revenue from global travel packages, which allow customers to customize their travel by combining air, hotel, car and other stand-alone travel products, was up 34% from 2003, due to improved package options.

Revenue from international websites increased 111%, or 95% on a local currency basis, to $319.1 million in 2004 from $151.3 million in 2003. The United Kingdom, German and Canadian websites, as well as the inclusion of the results of *www.anyway.com* (which was acquired in October 2003) and Expedia Corporate Travel-Europe (which was acquired in April 2004), contributed to this international growth. Full-service, Expedia-branded websites were also introduced in France and Italy in late June 2004.

Overall revenue margins (defined as net revenue as a percent of gross bookings) decreased by 20 basis points, due primarily to the decline in merchant hotel raw margins and lower air revenue per transaction. This decrease was partially offset by higher merchant hotel average daily rates and inclusion of the results of TripAdvisor in 2004. We expect these trends to continue in the near term.

Operating Income Before Amortization grew 20% to $566.7 million, due primarily to increased revenues as discussed above, profitability at Expedia Europe and the inclusion of the results of TripAdvisor as of April 27, 2004. In addition, Operating Income Before Amortization was impacted by a 46% increase in selling and marketing expense. The increase in selling and marketing expenses was driven by search related costs and increased marketing volume, as well as higher costs of traffic acquisitions online and greater emphasis on our international businesses, which have a higher selling and marketing cost relative to revenue due to earlier stages of development and the inclusion of Hotwire for the full year in the 2004 results. International selling and marketing expense increased 122%. Expedia was also favorably impacted in 2004 by a $12.1 million net reserve adjustment primarily related to the reversal of an air excise tax reserve and the resolution of a contractual dispute. Comparisons of Operating Income Before Amortization to prior year results were also favorably impacted in 2003 due to a write-down of $4.7 million by Hotels.com of its packaging software as it migrated to Expedia.com's packaging technology.

Operating income grew 30% to $424.9 million, due to the increase in Operating Income Before Amortization described above as well as (1) a decrease in non-cash distribution and marketing expense of $25.2 million due primarily to the termination of Hotels.com's distribution agreement with Travelocity, (2) a decrease in non-cash compensation of $16.2 million at Expedia due to IAC's 2003 mergers with Expedia.com and Hotels.com resulting in the conversion of all Expedia.com and Hotels.com stock options, warrants, and restricted stock into IAC equity awards and (3) a decrease in merger costs of $11.7 million associated with IAC's mergers with Expedia.com and Hotels.com. These items were partially offset by an increase in the amortization of intangibles of $49.0 million principally related to IAC's 2003 merger with Expedia.com and Hotels.com.

Expedia does not collect or remit occupancy tax on the portion of hotel customer payments that it retains for the intermediary services it provides in connection with its merchant hotel business. While discussions and developments relating to this practice are ongoing in various tax jurisdictions and the issue is the subject of several ongoing lawsuits, IAC continues to believe the issue will not have a material adverse effect on its past or future financial results.

Corporate

Corporate operating expenses in 2004 were $328.4 million compared with $186.8 million in 2003, of which $236.6 million and $110.5 million relate to non-cash compensation in 2004 and 2003, respectively. Included in these amounts for 2004 and 2003 are $167.8 million and $83.7 million, respectively, recognized with respect to the unvested stock options, warrants and restricted stock units assumed in the buy-ins of Ticketmaster, Hotels.com and Expedia.com. 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. These amounts also include expense related to restricted stock units granted by IAC and which became IAC's primary form of stock based compensation beginning in 2003.

Results of Operations for the Year Ended December 31, 2003 compared to the Year Ended December 31, 2002

	Twelve Months Ended December 31,			
	2003	Percentage of total	2002	Percentage of total
	(Dollars in millions, rounding differences may occur)			
Revenue:				
Retailing	$ 2,112.1	40%	$ 1,895.8	49%
Services	1,093.3	21%	949.4	25%
Media & Advertising	28.7	1%	30.8	1%
Membership & Subscriptions	608.2	12%	164.5	4%
Expedia (on a comparable net basis)(a)	1,400.2	27%	841.4	22%
Intersegment elimination	(19.2)	0%	(11.3)	0%
Total	$ 5,223.3	100%	$ 3,870.8	100%
As reported:				
Expedia(a)	$ 2,339.8	38%	$ 1,499.1	33%
Total	$ 6,162.9	100%	$ 4,528.5	100%

(a) As part of the integration of Expedia's businesses, Hotels.com conformed its merchant hotel business practices with those of the other Expedia businesses. As a result, beginning January 1, 2004, IAC commenced prospectively reporting revenue for Hotels.com on a net basis, consistent with Expedia.com's historical practice. Accordingly, we are including prior year results as though Hotels.com had reported revenue on a net basis for the purpose of better comparability. There was no impact to operating income or Operating Income Before Amortization from the change in reporting.

	Twelve Months Ended December 31,			
	2003	Percentage of total	2002	Percentage of total
	(Dollars in millions, rounding differences may occur)			
Operating Income (Loss):				
Retailing	$ 120.9	31%	$ 33.1	21%
Services	112.5	29%	70.5	44%
Media & Advertising	(69.8)	(18%)	(86.3)	(54%)
Membership & Subscriptions	95.5	24%	17.3	11%
Expedia	326.1	83%	193.8	121%
Emerging Businesses	(5.9)	(2%)	(5.4)	(3%)
Corporate and other	(186.8)	(48%)	(63.2)	(40%)
Total	$ 392.5	100%	$ 159.9	100%

	Twelve Months Ended December 31,						
	2003		Percentage of total	2002		Percentage of total	
	(Dollars in millions, rounding differences may occur)						
Operating Income Before Amortization:							
Retailing	$	173.0	20%	$	66.5	17%	
Services		158.2	19%		104.0	26%	
Media & Advertising		(19.9)	(2%)		(32.3)	(8%)	
Membership & Subscriptions		143.3	17%		30.0	8%	
Expedia		472.1	56%		285.0	73%	
Emerging Businesses		(3.8)	0%		(2.6)	(1%)	
Corporate and other		(76.3)	(9%)		(57.9)	(15%)	
Total	$	846.6	100%	$	392.6	100%	

IAC Consolidated Results

Revenue increased $1.6 billion, or 36%, although on a comparable net basis revenue increased $1.4 billion, or 35%. Growth was primarily driven by increased revenue of $558.8 million, or 66%, from Expedia on a comparable net basis, $443.7 million, or 270%, from the Membership & Subscriptions sector and $216.3 million, or 11%, from the Retailing sector. The revenue growth from Expedia included $12.5 million from the acquisition of Hotwire in 2003. The revenue growth from Membership & Subscriptions included the contribution of $201.5 million from Entertainment Publications, which was acquired in March 2003 and the increase in revenue of $184.0 million from Interval, which was acquired in September 2002. Revenue growth also included $55.8 million from LendingTree which was acquired in August 2003.

Gross profit increased $951.6 million, or 54%, primarily reflecting improved operating results of Expedia, the Membership & Subscriptions sector, which included Interval since its acquisition in September 2002 and Entertainment Publications since its acquisition in March 2003, and the Retailing sector.

Selling and marketing expenses increased $357.3 million, or 65%. As a percentage of comparable net revenue, selling and marketing expense increased to 17% for 2003 from 14% in 2002 which reflects in part the impact of acquisitions, as LendingTree and Hotwire generally have higher selling and marketing expenses as a percentage of revenue than IAC overall.

General and administrative expenses increased $182.9 million, or 38%, due primarily to the inclusion of Interval since its acquisition in September 2002 and Entertainment Publications and LendingTree in the 2003 results and increased headcount at Expedia.

Restructuring costs decreased $54.1 million in 2003. The 2003 restructure charge principally consisted of (1) a write-down of a receivable from the 2002 restructuring of HSN's U.K. offices, (2) facility closure costs at uDate's Derby, U.K. facility as the back-office operations of uDate were combined with Match International, and (3) costs related to employee terminations due principally to the decline in the teleservicing market that resulted in excess capacity. Such restructuring charges were offset by the reversals of costs for terminated employees, which are no longer probable of occurrence. The 2002 amounts are principally comprised of (1) $31.4 million related to the write-down of the Company's investment in HSE-Italy, (2) $14.8 million for HSN International related to the shut-down of HSN-Espanol, the Company's Spanish language electronic retailing operation, due to high costs of carriage and disappointing sales per home due to the fragmented market, and (3) $7.9 million for Teleservices related principally to the shut down of three call centers and employee terminations due principally to the decline of the teleservices market that resulted in excess industry capacity and lower pricing.

Operating Income Before Amortization increased $454.0 million, or 116%, primarily reflecting expanding gross margins and improved operating results at Expedia, the Retailing sector and the Ticketing segment within the Services sector as well as the inclusion of Entertainment Publications in the 2003 results. Operating Income Before Amortization was also favorably impacted by a $22.4 million adjustment in 2003 related to estimated supplier liabilities at Expedia.

Operating income increased $232.6 million, or 145%, reflecting the increase in Operating Income Before Amortization described above as well as a decrease in Teleservices goodwill impairment of $22.2 million. These results were partially offset by increased amortization of intangibles of $121.0 million, or 85%, increased non-cash compensation of $112.5 million, or 720%, and increased amortization of non-cash distribution and marketing expense of $14.1 million or 38%. The increase in non-cash compensation principally resulted from expense related to unvested stock options assumed in IAC's 2003 mergers with Expedia.com and Hotels.com and the acquisition of LendingTree in August 2003. The increase in the amortization of intangibles was principally due to IAC's 2003 mergers with Expedia.com and Hotels.com, as well as the acquisition of LendingTree.

Interest income increased $60.6 million in 2003 compared with 2002. The increase in interest income was due primarily to amounts earned on the proceeds from the Vivendi transaction in May 2002, including $37.3 million of paid in kind interest on the Series A Preferred in 2003 compared with $23.0 million in 2002 and $63.9 million of cash interest on the Series B Preferred in 2003 compared with $41.1 million in 2002. In addition, average cash and marketable securities on hand during 2003 and 2002 were $3.6 billion and $2.5 billion, respectively, resulting in higher interest income in 2003.

Interest expense increased $44.8 million in 2003 compared to 2002. The increase in interest expense was due primarily to an increase of $50.3 million related to the Company's $750 million 7% Senior Notes issued in December 2002, partially offset by a $6.2 million decrease in interest on the Company's $500 million $6^{3}/4$% Senior Notes issued in 1998 due to the repurchases made in late 2002 and 2003, including $92.2 million in aggregate principle amount that were repurchased during 2003.

The Company realized pre-tax losses in 2003 of $224.5 million on equity losses from its investment in VUE, compared with equity income of $6.1 million in 2002. During the first quarter of 2003, the Company recorded a charge of $245 million pretax in connection with VUE's $4.5 billion impairment charge of which IAC recorded its 5.44% proportionate interest.

Equity in the income (losses) of unconsolidated subsidiaries and other income (expense) increased by $114.7 million due primarily to (1) an $88.3 million charge in 2002 related to the closure of HOT Network's Belgium and UK operations, (2) a write-down in 2002 of HSN's investment in China based on operating performance and (3) losses on the repurchase of bonds of $8.6 million and $2.0 million recorded in 2003 and 2002, respectively.

The effective tax rate for continuing operations was 28% in 2003 compared to 51% in 2002. The 2003 tax rate was lower than the federal tax rate of 35% due principally to reversals of valuation allowances of $34.2 million and a decrease in deferred tax liabilities of $9.4 million due to a change in the effective state tax rate. The reversals of valuation allowances were based on an assessment that it was probable that the related tax benefits would be realized. The effective state tax rate decreased as a result of IAC's mergers with its formerly publicly traded subsidiaries in 2003 and the Vivendi transaction in 2002. Partially offsetting these decreases in income taxes are earnings in foreign jurisdictions that are taxed at rates higher than 35% and amortization of intangibles for book purposes for which the Company receives no tax deduction.

Minority interest increased $7.9 million and in 2003 represented the public's minority ownership in Ticketmaster, Hotels.com and Expedia.com until the date of their respective buy-ins in 2003 and HSE-Germany. In 2002 minority interest primarily represented Universal's and Liberty's ownership interest in USANi LLC through May 7, 2002; Liberty's ownership interest in Home Shopping Network, Inc. through June 27, 2002; the public's minority interests in Ticketmaster, Hotels.com, and Expedia.com; and the minority interest in HSE-Germany.

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. During the second quarter of 2005, TV Travel Shop ceased the sale of third-party travel products through its broadcast programming. In the second quarter 2003 ECS, Styleclick, Inc. and Avaltus, Inc., a subsidiary of PRC, ceased operations. Accordingly, the results of operations and statement of position of these businesses are presented as discontinued operations for all periods presented. In addition, through May 7, 2002, the Company's results also included the USA Entertainment Group, consisting of USA Cable, including USA Network and Sci Fi Channel, and Emerging Networks TRIO, Newsworld International and Crime; Studios USA, which produced and distributed television programming; and USA Films, which produced and distributed films. The USA Entertainment Group was contributed to a joint venture with Vivendi on May 7, 2002. As a result, the results of operations and assets and liabilities of USA Entertainment are presented as a discontinued operation through May 7, 2002. The net gain on contribution of the USA Entertainment Group to VUE for the year ended December 31, 2002 was $2.4 billion, which occurred in the second quarter of 2002. Income from discontinued operations in 2003 and 2002 was $33.9 million and $19.5 million, respectively, net of tax. The 2003 results are principally due to a tax benefit recognized due to the shut-down of Styleclick.

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

	Twelve Months Ended December 31,		
	2003	2002	Growth
	(Dollars in millions, rounding differences may occur)		
Revenue:			
Retailing:			
U.S.	$ 1,763.7	$ 1,613.2	9%
International	348.4	282.6	23%
Total Retailing	2,112.1	1,895.8	11%
Services:			
Ticketing	743.2	655.3	13%
Financial Services and Real Estate	55.8	N/A	N/A
Teleservices	294.3	294.1	0%
Total Services	1,093.3	949.4	15%
Media & Advertising	28.7	30.8	(7%)
Membership & Subscriptions:			
Vacations	222.8	38.7	475%
Personals	185.3	125.8	47%
Discounts	201.5	N/A	N/A
Intra-sector elimination	(1.4)	—	N/A
Total Membership & Subscriptions	608.2	164.5	270%
Expedia (on a comparable net basis)(a)	1,400.2	841.4	66%
Emerging Businesses	—	—	N/A
Intersegment elimination	(19.2)	(11.3)	(71%)
Total	$ 5,223.3	$ 3,870.8	35%
As reported:			
Expedia(a)	$ 2,339.8	$ 1,499.1	56%
Total	$ 6,162.9	$ 4,528.5	36%

(a) As part of the integration of Expedia's businesses, Hotels.com conformed its merchant hotel business practices with those of the other Expedia businesses. As a result, beginning January 1, 2004, IAC commenced prospectively reporting revenue for Hotels.com on a net basis, consistent with Expedia.com's historical practice. Accordingly, we are including prior year results as though Hotels.com had reported revenue on a net basis for the purpose of better comparability. There was no impact to operating income or Operating Income Before Amortization from the change in reporting.

	Twelve Months Ended December 31,		
	2003	2002	Growth
	(Dollars in millions, rounding differences may occur)		
Operating Income (Loss):			
Retailing:			
U.S.	$ 117.5	$ 98.7	19%
International	3.4	(65.6)	N/M
Total Retailing	120.9	33.1	264%
Services:			
Ticketing	116.5	96.9	20%
Financial Services and Real Estate	(16.5)	N/A	N/A
Teleservices	12.5	(26.4)	N/M
Total Services	112.5	70.5	59%
Media & Advertising	(69.8)	(86.3)	19%
Membership & Subscriptions:			
Vacations	41.0	(5.3)	N/M
Personals	14.1	22.6	(38%)
Discounts	40.4	N/A	N/A
Total Membership & Subscriptions	95.5	17.3	450%
Expedia	326.1	193.8	68%
Emerging Businesses	(5.9)	(5.4)	(9%)
Corporate and other	(186.8)	(63.2)	(195%)
Total	$ 392.5	$ 159.9	145%

	Twelve Months Ended December 31,		
	2003	2002	Growth
	(Dollars in millions, rounding differences may occur)		
Operating Income Before Amortization:			
Retailing:			
U.S.	$ 168.3	$ 131.4	28%
International	4.7	(64.9)	N/M
Total Retailing	173.0	66.5	160%
Services:			
Ticketing	144.5	108.1	34%
Financial Services and Real Estate	1.2	N/A	N/A
Teleservices	12.5	(4.1)	N/M
Total Services	158.2	104.0	52%
Media & Advertising	(19.9)	(32.3)	38%
Membership & Subscriptions:			
Vacations	66.2	1.6	4,138%
Personals	31.0	28.4	9%
Discounts	46.1	N/A	N/A
Total Membership & Subscriptions	143.3	30.0	378%
Expedia	472.1	285.0	66%
Emerging Businesses	(3.8)	(2.6)	(46%)
Corporate and other	(76.3)	(57.9)	(32%)
Total	$ 846.6	$ 392.6	116%
Operating Income Before Amortization as a percentage of revenue (on a comparable net basis)	16%	10%	

Retailing

Revenues for the Retailing sector increased year over year due to improved results at both HSN U.S. and HSN International. Operating Income Before Amortization and operating income increased due to improved results at HSN U.S. as well as restructuring and other charges recognized in 2002 at HSN International related to its operations in Italy and Spain that benefited the year over year comparisons.

U.S.

Revenue growth of 9% to $1.8 billion in 2003 reflected a 5% increase in units shipped, a 4% increase in average price point, and a decline in the return rate of 90 basis points. Overall, the product mix shifted slightly from Apparel/Accessories and Jewelry to Health & Beauty and Home-Hard Goods. The shift in product mix increased the average price point, as Home-Hard Goods, which are comprised of items such as computers and electronics, generally carry higher sales prices and reduced return rates, as compared to Apparel/Accessories and Jewelry. The impact of the decrease in return rates on gross profit was $6.8 million. Off air sales, which include Autoship programs for health products and Upsell programs, had increased revenue of $30.3 million, or 20%, over 2002.

Gross profit remained relatively consistent between years, at 37.1% for 2003 compared with 37.2% in 2002. Changes in product mix that occurred during 2003, shifting into products that carry slightly lower margins, were partially offset by lower markdowns and improvements in fulfillment costs. Operating Income Before Amortization grew 28% to $168.3 million reflecting the growth in revenue, as well as operating efficiencies, as fixed costs as a percentage of revenue declined from 11.6% in 2002 to 11.3% in 2003. In addition, depreciation expense declined $8.7 million compared to 2002.

The 19% increase in operating income to $117.5 million reflects the increase in Operating Income Before Amortization noted above as well as increased amortization of intangibles of $18.5 million, resulting from the full year impact of the step-up in basis as a result of the Vivendi transaction that occurred in May 2002. Amortization of intangibles includes $2.7 million related to non-cash cable carriage acquired as a result of the VUE transaction.

As noted in previous Company filings, the majority of the USA Broadcasting stations sold to Univision were located in the largest markets in the country and aired HSN on a 24-hour basis. As of January 2002, HSN switched its distribution in these markets directly to cable carriage. As a result, HSN incurred incremental costs to obtain carriage lost in the disengagement markets and conduct marketing activities to inform viewers of new channel positioning for the HSN service. HSN's results are presented including disengagement costs in each period presented. Disengagement expenses were $22.0 million in 2003 compared to $31.8 million in 2002, principally reflecting a decrease in marketing expenses.

International

Revenue growth of 23% to $348.4 million in 2003 was driven by HSE-Germany, which increased revenues by $75.6 million, or 28%. HSE-Germany's growth was primarily due to the favorable impact of foreign exchange rates, which contributed $57.2 million in 2003, or 76% of the growth. HSE-Germany's revenue increased 7% on a year over year Euro-equivalent basis due to improved efficiencies with respect to the ordering process, which has resulted in a decrease in the cancellation rates on orders.

Operating Income Before Amortization and operating income increased to $4.7 million and $3.4 million, respectively. Negatively impacting Operating Income Before Amortization and operating income in 2002 were $31.4 million of restructuring and other charges recognized related to the closure of its operations in Italy, and a $17.8 million charge for the shut-down of HSN-Espanol, which operated a Spanish language electronic retailing operation serving customers primarily in the United States and Mexico.

Services

Revenues and Operating Income Before Amortization for the Services sector increased year over year due to improved results at Ticketing and the inclusion of LendingTree, which was acquired in August 2003. In addition, Operating Income Before Amortization was negatively impacted in 2002 by a goodwill impairment charge at the Teleservices segment.

Ticketing

Revenue growth of 13% to $743.2 million in 2003 was driven by a 9% increase in average revenue per ticket and a 5% increase in the number of tickets sold. Revenues increased $87.9 million, including $52.2 million domestically and $35.7 million internationally, including $11.7 million related to the full year impact of acquisitions made in 2002 in Denmark and the Netherlands. Revenue per ticket increased due to higher convenience and processing fees in both domestic and foreign markets as well as favorable exchange rates from foreign markets. International revenue increased $19.5 million, or 18%, on a year over year local currency basis. Revenues were favorably impacted by the mix of entertainment events, including an above-average number of stadium shows in 2003.

Operating Income Before Amortization grew 34% to $144.5 million reflecting the positive revenue variance, operating efficiencies and the favorable resolution of tax contingencies of $3.7 million. Fixed costs as a percentage of revenue declined from 28.3% in 2002 to 26.8% in 2003 due to the scalability of the business. The 20% increase in operating income to $116.5 million also reflects the increase in amortization of intangibles of $17.3 million due to IAC's acquisition of the public's minority interest in Ticketmaster during 2003.

Financial Services and Real Estate

Financial Services and Real Estate consisted of the results of LendingTree from the date of acquisition on August 8, 2003. The fourth quarter of 2003 was the first full quarter that LendingTree, along with the rest of the industry, began to encounter the expected lower demand for refinancings of mortgages. This trend resulted in fewer mortgage requests and closings, and as a result revenue and operating income showed declines in the fourth quarter of 2003 compared with the fourth quarter of 2002 of $3.3 million and $17.7 million respectively. Some of the decline was also due to an increasingly competitive environment, higher marketing spend at the end of 2003 in anticipation of the seasonally stronger first quarter of 2004 and the amortization of intangibles and non-cash compensation in relation to the IAC acquisition of $9.9 million.

For full year 2003 compared to 2002, LendingTree's revenue increased $48.8 million, or 44%, to $160.2 million, reflecting growth from both realty and lending services, particularly refinance mortgages.

Teleservices

Teleservices revenue remained flat in 2003 due in part to tough economic conditions affecting the industry. While revenue remained flat, Operating Income Before Amortization and operating income both increased to $12.5 million as compared to 2002. PRC continued to face significant pricing pressure and competition for reduced call volumes but PRC continued to grow organic market share to help offset these pressures.

Operating Income Before Amortization for 2002 included a goodwill impairment charge of $22.2 million recognized in the second quarter and a $7.9 million restructuring charge recognized for the closure of certain call centers. The goodwill impairment charge of $22.2 million noted above related to contingent purchase consideration recorded in the second quarter of 2002 in connection with the purchase of Access Direct.

Excluding these charges in 2002, Operating Income Before Amortization and operating income increased by $8.7 million due to decreases in call center capacity, fixed costs and depreciation expense in 2003. These costs decreased as management continued to focus on improving operating efficiencies and key strategic initiatives throughout the organization. Revenue for the year ended December 31, 2003 and 2002 includes $17.8 million and $9.9 million, respectively, for services provided to other IAC businesses.

Media & Advertising

Revenue declined 7% to $28.7 million in 2003 due to the shift of Citysearch's business model from building web sites for local businesses for an annual fee, to the introduction of a new Pay-For Performance business model in 2003, which is expected to grow over time. Due to cost cutting initiatives introduced in 2002 and continued in 2003, Citysearch was able to decrease its Operating Income Before Amortization losses by 38% as compared to the prior year.

Operating losses in 2003 improved 19% to a loss of $69.8 million. These results were impacted by a decrease of $5.6 million in merger costs and a $6.4 million decrease in non-cash compensation offset by an $1.3 million increase in amortization of intangibles related primarily to the Ticketmaster buy-in, which included Citysearch, completed by IAC in January 2003.

Membership & Subscriptions

Revenues, Operating Income Before Amortization and operating income for the Membership & Subscriptions sector increased year over year due primarily to the inclusion of Entertainment Publications, which was acquired in March 2003 and the inclusion of full year results of Interval, which was acquired in September 2002.

Vacations

Vacations consisted of the results of Interval from the date of acquisition on September 24, 2002. Interval had increased 2003 revenue of $184.0 million as compared to the period post-acquisition in 2002.

Interval's 2003 Operating Income Before Amortization and operating income increased $64.6 million and $46.2 million, respectively, as compared to the period post-acquisition in 2002.

Personals

Personals ended 2003 with approximately 939,000 paid subscribers, up 30% from the end of 2002, with uDate, which was acquired in April 2003, contributing 12% of the subscriber growth. Revenue increased in domestic markets due to increases in subscriber count of 13% and higher overall pricing, although pricing declined during 2003 due to the introduction of lower monthly pricing for long-term subscriptions. Revenue from international operations increased $33.1 million, including the contribution of uDate of $18.5 million, with international operations accounting for 20% of total segment revenues in 2003 versus 3% in 2002. Overall, international operations were unprofitable in 2003 with an Operating Income Before Amortization loss of $10.1 million compared to a loss of $4.0 million in 2002, due primarily to increased investments in building out the international operations and the results of uDate.

Operating Income Before Amortization margins decreased in 2003 relative to 2002 primarily due to losses of international operations, including uDate described above.

Operating income in 2003 reflected an increase of $12.9 million of amortization of intangibles related primarily to the Ticketmaster buy-in, which included Match.com, completed by IAC in January 2003 and the acquisition of uDate.

Discounts

Discounts consisted of the results of Entertainment Publications from the date of acquisition on March 25, 2003, which contributed $201.5 million of revenue, $46.1 million of Operating Income Before Amortization and $40.4 million of operating income in 2003.

Expedia

The following discussion is based upon comparable net revenue amounts:

Revenue growth of 66% to $1.4 billion in 2003 was primarily driven by strong results from the merchant hotel business, with additional growth coming from package business. In addition, Hotwire, which was acquired in November 2003, contributed $12.5 million in revenue, although its operating income and Operating Income Before Amortization results were minimal for the period.

Merchant hotel room nights stayed increased 64% over 2002, including an increase in international markets, which represented 12% of total merchant hotel revenues in 2003 as compared to 5% in 2002. The increase in merchant hotel revenue was partially offset by the termination of the Travelocity affiliate relationship in September 2003. Travelocity was the largest affiliate of Hotels.com, representing 9% of Expedia revenues on a comparable net basis (6% as reported) in 2003 as compared to 20%, on a comparable net basis, (11% as reported), in 2002. Even though Travelocity represented a significant, albeit declining, percentage of revenue, we expect that the long-term benefits of this event will outweigh the near-term negative impact, including the ability to integrate the operations of Expedia.com and Hotels.com.

Revenue from travel packages, which allow customers to customize their travel by combining air, hotel, car and other stand-alone travel products, was $296.0 million in 2003, up 92% from 2002, due to improved package offerings and consumer acceptance of this product.

Revenue, Operating Income Before Amortization and operating income were positively impacted in 2003 based on an analysis performed in the fourth quarter related to estimated supplier liabilities, resulting in an adjustment of $22.4 million, $9.8 million of which related to periods prior to 2003. Excluding this amount, Expedia's revenue, Operating Income Before Amortization and operating income would have grown 64%, 57% and 58%, respectively in 2003. The analysis performed provided additional evidence that Expedia used to update and refine its estimation of supplier liabilities, resulting in the decrease of $22.4 million. Expedia does not expect to record any similar-sized adjustments in future periods.

Operating Income Before Amortization increased 66% to $472.1 million as a result of the growth in revenues, although it increased at a higher rate than reported revenue due to expanding gross margins as well as the scalability of the businesses, which allows them to support higher revenue levels without commensurate increases in operating costs. Net revenue as a percentage of total gross transaction value, assuming Hotels.com reported revenues net, was 14.6% in 2003 compared to 14.2% in 2002. Expedia incurred selling and marketing expenses of $608.6 million in 2003, up 81% from the prior year, in order to build brands and drive traffic to domestic and international websites. The increase in selling and marketing expenses as a percent of revenue was driven by higher costs of traffic acquisitions online, higher CPMs offline, and shift in business mix as our international businesses, which have a higher selling and marketing cost relative to revenue due to their early stages of development, grew faster than our domestic businesses. This increase was more than offset by the operating efficiencies described above. Comparisons of Operating Income Before Amortization to prior year results were also negatively impacted by the integration efforts undertaken in 2003, resulting in a write-off relating to packaging technology at Hotels.com of $4.7 million, as it adopted Expedia.com's technology.

Operating income increased 68% to $326.1 million reflecting the increase in Operating Income Before Amortization noted above. Operating income was further impacted by increased amortization of intangibles of $33.2 million due principally to IAC's acquisition of the public's minority interest in Hotels.com and Expedia.com in 2003, as well as a $10.6 million increase in non-cash compensation, a $9.4 million increase in merger costs and a $9.3 million increase in non-cash distribution and marketing expense.

Corporate

Corporate operating expenses in 2003 were $186.8 million compared with $63.2 million in 2002. The increase was related primarily to non-cash compensation of $110.5 million, including the impact of unvested stock options assumed in the buy-ins of Ticketmaster, Hotels.com and Expedia.com and other acquisitions, as well as expense related to restricted stock units, which IAC began to issue in 2003 in lieu of stock options.

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 plus: (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 and (4) one-time items. We believe this measure is useful to investors because it represents the consolidated operating results from IAC's segments, taking into account depreciation, which we believe is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to IAC's 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.

Pro Forma Results

We have presented Operating Income Before Amortization pro forma for the impact of IAC's initial acquisition of a majority stake in Expedia.com which occurred in February 2002, as if the transaction had occurred as of January 1, 2002. We believe that the pro forma results provide investors with better comparisons to prior periods, and a better view of ongoing operations.

One-Time Items

Operating Income Before Amortization is presented before one-time items. These items are truly one-time in nature and non-recurring, infrequent or unusual, and have not occurred in the past two years or are not expected to recur in the next two years, in accordance with SEC rules. GAAP results include one-time items. Merger costs incurred by Expedia.com, Hotels.com and Ticketmaster for investment banking, legal, and accounting fees were related directly to the mergers and were the only costs treated as one-time items for calculating Operating Income Before Amortization. These costs were incurred solely in relation to the mergers, but may not be capitalized since Expedia.com, Hotels.com and Ticketmaster were considered targets in the transaction for accounting purposes. These costs do not directly benefit operations in any manner, would not normally be recorded by IAC if not for the fact it already consolidated these entities, and are all related to the same transaction, as IAC simultaneously announced its intention to commence its exchange offer for the companies in 2002. The majority of costs are for advisory services provided by investment bankers, and the amounts incurred in 2003 were pursuant to the same fee letters entered into by each company in 2002. Given these factors, we believe it is appropriate to consider these costs as one-time.

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.com 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 Vivendi transaction. The Hotels.com warrants were principally issued as part of its initial public offering, and we do not anticipate replicating these arrangements. With the termination of the Travelocity affiliate agreement in September 2003, all outstanding Travelocity warrants were cancelled although certain other Hotels.com warrants remain outstanding. The non-cash advertising from Universal has primarily been used for the benefit of Expedia.com, 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 pursuant to an agreement with Universal as part of the Vivendi transaction. Sufficient advertising has been secured to satisfy existing obligations. We do not expect to replace this non-cash marketing with an equivalent cash expense after it runs out in 2007, nor would IAC incur such amounts absent the advertising received in the Vivendi transaction.

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 years ended December 31, 2004, 2003, and 2002.

	Twelve Months Ended December 31,		
	2004	2003	2002
	(In Thousands)		
Operating Income Before Amortization	$ 1,002,382	$ 846,595	$ 392,554
Amortization of non-cash distribution and marketing expense	(18,030)	(51,432)	(37,344)
Amortization of non-cash compensation expense	(241,726)	(128,185)	(15,637)
Amortization of intangibles	(310,479)	(262,750)	(141,797)
Goodwill impairment	(184,780)	—	(22,247)
Merger costs(a)	—	(11,760)	(7,910)
Pro forma adjustments(b)	—	—	(7,713)
Operating income	247,367	392,468	159,906
Interest income	190,733	175,001	114,444
Interest expense	(81,745)	(87,665)	(42,823)
Equity in income (losses) of VUE	16,188	(224,468)	6,107
Equity in income (losses) in unconsolidated subsidiaries and other expenses	25,282	3,486	(111,216)
Income tax expense	(177,091)	(72,546)	(64,830)
Minority interest in income of consolidated subsidiaries	(2,858)	(52,822)	(44,887)
Gain on contribution of USA Entertainment to VUE, net of tax	—	—	2,378,311
Discontinued operations, net of tax	(53,015)	33,942	19,480
Cumulative effect of accounting change, net of tax	—	—	(461,389)
Preferred dividends	(13,053)	(13,055)	(11,759)
Net earnings available to common shareholders	$ 151,808	$ 154,341	$ 1,941,344

(a) The Company has incurred costs at Expedia.com, Hotels.com and Ticketmaster for investment banking, legal and accounting fees related directly to the mergers, which are considered as one-time. These costs were incurred solely in relation to the mergers, but may not be capitalized since Expedia.com, Hotels.com and Ticketmaster were considered the targets in the transaction for accounting purposes. These costs do not directly benefit operations in any manner, would not normally be recorded by IAC if not for the fact it already consolidated these entities, and are all related to the same transaction, as IAC simultaneously announced its intention to commence its exchange offer for the companies in 2002. The majority of costs are for advisory services provided by investment bankers, and the amounts incurred in 2003 were pursuant to the same fee letters entered into by each company in 2002. Given these factors, IAC believes it is appropriate to consider these costs as one-time.

(b) Pro forma adjustments to 2002 represent the impact of IAC's initial acquisition of a majority stake in Expedia.com, which occurred in February 2002 as if the transaction occurred as of the beginning of the periods presented. Operating income is presented on an actual basis.

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 year ended December 31, 2004		
	Operating Income Before Amortization	Amortization of non-cash items	Operating income (loss)
Retailing:			
U.S.(a)	$ 194.7	$ (52.9)	$ 141.7
International	4.3	(1.3)	3.0
Total Retailing	199.0	(54.2)	144.7
Services:			
Ticketing	164.3	(26.4)	137.9
Financial Services and Real Estate	21.4	(29.0)	(7.6)
Teleservices	17.1	(184.8)	(167.7)
Home Services	0.3	(2.5)	(2.2)
Total Services	203.1	(242.7)	(39.6)
Media & Advertising	(13.3)	(33.8)	(47.1)
Membership & Subscriptions:			
Vacations	90.2	(25.2)	65.0
Personals	27.6	(8.7)	18.8
Discounts	22.0	(8.0)	14.0
Total Membership & Subscriptions	139.8	(41.9)	97.9
Expedia	566.7	(141.8)	424.9
Emerging Businesses	(1.1)	(3.9)	(5.0)
Corporate and other	(91.8)	(236.6)	(328.4)
TOTAL	$ 1,002.4	$ (755.0)	$ 247.4
Other income, net			150.5
Earnings from continuing operations before income taxes and minority interest			397.8
Income tax expense			(177.1)
Minority interest in income of consolidated subsidiaries			(2.9)
Earnings from continuing operations			217.9
Discontinued operations			(53.0)
Earnings before preferred dividends			164.9
Preferred dividends			(13.1)
Net earnings available to common shareholders			$ 151.8

	For the year ended December 31, 2003			
	Operating Income Before Amortization	Amortization of non-cash items	Merger Costs	Operating income (loss)
Retailing:				
U.S.(a)	$ 168.3	$ (50.8)	$ —	$ 117.5
International	4.7	(1.3)	—	3.4
Total Retailing	173.0	(52.1)	—	120.9
Services:				
Ticketing	144.5	(28.0)	(0.1)	116.5
Financial Services and Real Estate	1.2	(17.7)	—	(16.5)
Teleservices	12.5	—	—	12.5
Total Services	158.2	(45.7)	(0.1)	112.5
Media & Advertising	(19.9)	(50.0)	—	(69.8)
Membership & Subscriptions:				
Vacations	66.2	(25.2)	—	41.0
Personals	31.0	(16.9)	—	14.1
Discounts	46.1	(5.7)	—	40.4
Total Membership & Subscriptions	143.3	(47.8)	—	95.5
Expedia	472.1	(134.3)	(11.7)	326.1
Emerging Businesses	(3.8)	(2.1)	—	(5.9)
Corporate and other	(76.3)	(110.5)	—	(186.8)
TOTAL	$ 846.6	$ (442.3)	$ (11.8)	$ 392.5
Other expenses, net				(133.6)
Earnings from continuing operations before income taxes and minority interest				258.8
Income tax expense				(72.5)
Minority interest in income of consolidated subsidiaries				(52.8)
Earnings from continuing operations				133.5
Discontinued operations				33.9
Earnings before preferred dividends				167.4
Preferred dividends				(13.1)
Net earnings available to common shareholders				$ 154.3

	For the year ended December 31, 2002				
	Operating Income Before Amortization	**Amortization of non-cash items**	**Merger Costs**	**Pro Forma Adjustments(b)**	**Operating income (loss)**
Retailing:					
U.S.(a)	$ 131.4	$ (32.6)	$ —	$ —	$ 98.7
International	(64.9)	(0.7)	—	—	(65.6)
Total Retailing	66.5	(33.3)	—	—	33.1
Services:					
Ticketing	108.1	(11.1)	—	—	96.9
Teleservices	(4.1)	(22.2)	—	—	(26.4)
Total Services	104.0	(33.4)	—	—	70.5
Media & Advertising	(32.3)	(48.3)	(5.6)	—	(86.3)
Membership & Subscriptions:					
Vacations	1.6	(6.8)	—	—	(5.3)
Personals	28.4	(5.8)	—	—	22.6
Total Membership & Subscriptions	30.0	(12.6)	—	—	17.3
Expedia	285.0	(81.2)	(2.3)	(7.7)	193.8
Emerging Businesses	(2.6)	(2.9)	—	—	(5.4)
Corporate and other	(57.9)	(5.3)	—	—	(63.2)
TOTAL	$ 392.6	$ (217.1)	$ (7.9)	$ (7.7)	$ 159.9
Other expenses, net					(33.5)
Earnings from continuing operations before income taxes and minority interest					126.4
Income tax expense					(64.8)
Minority interest in income of consolidated subsidiaries					(44.9)
Earnings from continuing operations					16.7
Gain on contribution of USA Entertainment to VUE					2,378.3
Discontinued operations					19.5
Earnings before cumulative effect of accounting change					2,414.5
Cumulative effect of accounting change					(461.4)
Earnings before preferred dividends					1,953.1
Preferred dividends					(11.8)
Net earnings available to common shareholders					$ 1,941.3

(a) As noted in previous filings, the majority of the USAB stations sold to Univision were located in the largest markets in the country and aired HSN on a 24-hour basis. As of January 2002, HSN switched its distribution in these markets directly to cable carriage. As a result, HSN incurred incremental costs to obtain carriage lost in the disengagement markets and conduct marketing activities to inform viewers of new channel positioning for the HSN service. Higher incremental costs were incurred in 2002, so disengagement costs were presented separately from HSN results when comparing 2003 results to 2002. Comparable costs are expected to be incurred in 2004 in relation to 2003, and HSN's results are presented including disengagement costs in each period.

(b) Pro forma adjustments in 2002 represent the impact of IAC's initial acquisition of a majority stake in Expedia.com, which occurred in February 2002.

Results of operations for the three months ended March 31, 2005 compared to the three months ended March 31, 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 months ended March 31, 2005 and 2004 (rounding differences may occur):

	Three Months Ended March 31,			
	2005	Percentage of total	2004	Percentage of total
	(Dollars in millions)			
Revenue:				
Retailing	$ 598.9	36%	$ 561.1	39%
Services	401.9	24%	313.8	22%
Media & Advertising	9.0	1%	5.8	0%
Membership & Subscriptions	153.8	9%	144.5	10%
Expedia	485.0	30%	413.3	29%
Emerging Businesses	3.8	0%	—	0%
Intersegment elimination	(9.2)	(1%)	(6.0)	0%
Total	$ 1,643.2	100%	$ 1,432.5	100%

	Three Months Ended March 31,			
	2005	Percentage of total	2004	Percentage of total
	(Dollars in millions)			
Operating Income (Loss):				
Retailing	$ 45.7	35%	$ 29.3	72%
Services	43.4	33%	40.3	99%
Media & Advertising	(1.0)	(1%)	(16.8)	(41%)
Membership & Subscriptions	17.6	13%	11.9	29%
Expedia	107.7	82%	66.5	164%
Emerging Businesses	(2.6)	(2%)	(0.7)	(2%)
Corporate and other	(79.6)	(61%)	(89.8)	(221%)
Total	$ 131.2	100%	$ 40.7	100%

	Three Months Ended March 31,			
	2005	Percentage of total	2004	Percentage of total
	(Dollars in millions)			
Operating Income Before Amortization:				
Retailing	$ 59.3	23%	$ 42.9	22%
Services	62.9	25%	53.1	27%
Media & Advertising	(0.9)	0%	(4.7)	(2%)
Membership & Subscriptions	26.6	10%	23.8	12%
Expedia.	140.0	55%	101.7	52%
Emerging Businesses	(2.5)	(1%)	(0.7)	0%
Corporate and other	(28.9)	(11%)	(21.7)	(11%)
Total	$ 256.5	100%	$ 194.3	100%

IAC Consolidated Results

Revenue increased $210.7 million, or 15%, primarily driven by revenue increases of $88.1 million, or 28% from the Services sector, $71.7 million, or 17%, from Expedia and $37.8 million, or 7%, from the Retailing sector. The revenue growth from the Services sector included the increase in revenue resulting from the Financial Services and Real Estate segment and its integration of Home Loan Center (now called LendingTree Loans), which was acquired in December 2004.

Gross profit increased $153.0 million, or 21%, reflecting 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. The increase in gross profit also reflects improved results of the Retailing sector, which was driven primarily by higher margins at HSN U.S., and the Services sector, which was driven by the integration of LendingTree Loans.

Selling and marketing expenses increased $33.8 million, or 11%, primarily reflecting the impact of LendingTree and its acquisitions of LendingTree Loans and iNest in the fourth quarter 2004. LendingTree 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. As a percentage of revenue, selling and marketing expense remained comparable to the prior period at 21%.

General and administrative expenses increased $47.7 million, or 29%, due primarily to increased headcount at certain Expedia companies and the inclusion of the results of LendingTree Loans, TripAdvisor and Home Services in the 2005 results. In addition, the Company incurred approximately $5.9 million of expenses in connection with the Spin-Off in 2005.

Depreciation expense increased $2.5 million, or 6%, due primarily to capital expenditures of $50.0 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 $62.2 million, or 32%, due primarily to the improved operating results of Expedia, the Retailing sector and the Financial Services and Real Estate segment.

Operating income increased $90.5 million, or 222%, reflecting the increase in Operating Income Before Amortization noted above, as well as decreased non-cash compensation of $18.4 million, or 27%, decreased non-cash distribution and marketing expense of $5.9 million, or 93% and decreased amortization of intangibles of $3.9 million, or 5%. 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 declines over time as the awards vest. In future periods, non-cash compensation is expected to include charges related to pending transactions, including the Spin-Off.

Interest income increased $8.8 million in 2005 compared with 2004 as a result of higher interest rates earned. Interest expense increased $2.3 million in 2005 compared to 2004 due to the impact of higher interest rates on the interest rate swap arrangements.

The Company realized equity losses in 2005 of $21.2 million from its investment in Vivendi Universal Entertainment LLLP ("VUE"), a joint venture formed in May 2002 between the Company and Vivendi Universal, S.A. ("Vivendi"), compared with equity losses of $0.4 million in 2004. During the fourth quarter 2004, VUE recorded a charge related to asset impairments. Because of delays in VUE's financial reporting, IAC consistently records its 5.44% proportionate share of the results of VUE on a one-quarter lag.

Equity in the income of unconsolidated subsidiaries and other income (expense) decreased by $2.3 million due primarily to the recognition of other than temporary impairment losses on marketable securities of $15.0 million as of March 31, 2005 that are expected to be sold by the Company and an increase of $7.2 million in realized losses on the sale of marketable securities, partially offset by (1) a $16.7 million gain on the sale of our minority interest share in the Italian home shopping operations, (2) an increase in foreign currency exchange gains of $1.7 million, and (3) a $1.6 million increase in the equity income of unconsolidated subsidiaries of HSN International, including TVSN and Jupiter Shop Channel. IAC recognized unrealized losses that were deemed to be other than temporary related to its marketable securities that are expected to be sold by the Company to fund its cash needs related to: the repurchase of 52.8 million shares of IAC common stock associated with the acquisition of Ask Jeeves; the acquisition of Cornerstone Brands; and the redemption of the IAC preferred stock for approximately $656 million in connection with the Spin-Off.

The effective tax rate from continuing operations was 49% 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, 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. The sale closed on June 2, 2005. During the second quarter of 2005, TV Travel Shop ceased the sale of third-party travel products through its broadcast programming. In the second quarter of 2003, USA Electronic Commerce Solutions ("ECS"), Styleclick, Inc. and Avaltus, Inc., a subsidiary of PRC, ceased operations. Accordingly, the results of operations and statement of position of these businesses are presented as discontinued operations for all periods presented. Loss related to these discontinued operations in 2005 and 2004 was $3.0 million and $2.5 million, respectively, net of tax.

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

	Three Months Ended March 31,		
	2005	2004	Growth
	(Dollars in millions, rounding differences may occur)		
Revenue:			
Retailing:			
U.S.	$ 498.0	$ 467.8	6%
International	100.9	93.3	8%
Total Retailing	598.9	561.1	7%
Services:			
Ticketing	211.3	202.3	4%
Financial Services and Real Estate	105.8	39.7	166%
Teleservices	77.1	71.8	7%
Home Services	7.7	N/A	N/A
Total Services	401.9	313.8	28%
Media & Advertising	9.0	5.8	56%
Membership & Subscriptions:			
Vacations	75.0	69.4	8%
Personals	54.2	48.8	11%
Discounts	24.6	26.3	(6%)
Total Membership & Subscriptions	153.8	144.5	6%
Expedia	485.0	413.3	17%
Emerging Businesses	3.8	—	N/A
Intersegment elimination	(9.2)	(6.0)	(53%)
Total	$ 1,643.2	$ 1,432.5	15%

	Three Months Ended March 31,		
	2005	2004	Growth
	(Dollars in millions, rounding differences may occur)		
Operating Income (Loss):			
Retailing:			
U.S.	$ 43.3	$ 28.4	53%
International	2.5	0.9	161%
Total Retailing	45.7	29.3	56%
Services:			
Ticketing	40.0	40.7	(2%)
Financial Services and Real Estate	(3.3)	(3.6)	8%
Teleservices	4.2	3.2	33%
Home Services	2.4	N/A	N/A
Total Services	43.4	40.3	8%
Media & Advertising	(1.0)	(16.8)	94%
Membership & Subscriptions:			
Vacations	26.8	19.8	36%
Personals	4.4	2.8	54%
Discounts	(13.6)	(10.7)	(27%)
Total Membership & Subscriptions	17.6	11.9	48%
Expedia	107.7	66.5	62%
Emerging Businesses	(2.6)	(0.7)	(261%)
Corporate and other	(79.6)	(89.8)	11%
Total	$ 131.2	$ 40.7	222%

	Three Months Ended March 31, 2005	2004	Growth
	(Dollars in millions, rounding differences may occur)		
Operating Income Before Amortization:			
Retailing:			
U.S.	$ 56.5	$ 41.6	36%
International	2.8	1.3	119%
Total Retailing	59.3	42.9	38%
Services:			
Ticketing	47.0	46.8	0%
Financial Services and Real Estate	9.7	3.1	215%
Teleservices	4.2	3.2	33%
Home Services	2.0	N/A	N/A
Total Services	62.9	53.1	19%
Media & Advertising	(0.9)	(4.7)	80%
Membership & Subscriptions:			
Vacations	33.1	26.1	27%
Personals	5.4	6.3	(14%)
Discounts	(12.0)	(8.6)	(39%)
Total Membership & Subscriptions	26.6	23.8	12%
Expedia	140.0	101.7	38%
Emerging Businesses	(2.5)	(0.7)	(246%)
Corporate and other	(28.9)	(21.7)	(33%)
Total	$ 256.5	$ 194.3	32%
Operating Income Before Amortization as a percentage of revenue	16%	14%	

Retailing

Revenue, Operating Income Before Amortization and operating income for the Retailing sector increased period over period due to improved results at both HSN U.S. and HSN International.

U.S.

Revenue grew 6% to $498.0 million, primarily as a result of a 5% increase in average price point and a 140 basis point decline in return rates. The growth in average price point was primarily the result of higher average selling prices within most product categories. In addition, as part of the growth, HSN.com increased revenues by 24% over the prior year. Overall, the product mix shifted from Health and Beauty and Home Hard Goods in 2004 to Apparel and Accessories in 2005.

Operating Income Before Amortization grew 36% to $56.5 million, due primarily to the growth in revenue and an increase in gross profit margins by 120 basis points due primarily to higher initial markups and lower retail markdowns, customer return rates and inventory reserves. Lower return rates impact both revenue and gross margins, as lower returns result in lower warehouse processing costs and lower inventory mark-downs for goods that are not resalable at full retail price. The impact of the decline in overall return rates on gross profit was $3.2 million. Focus on customer service initiatives and better quality merchandise coupled with adherence to new return policies have helped drive return rates lower. Inventory reserves improved quarter over quarter primarily as a result of newer merchandise available for sale, less distressed inventory and less shrinkage. While we expect growth rates in Operating Income Before Amortization to exceed growth rates in revenue, we expect the differential between the two will generally be less than it was in the first quarter. However, we expect the second quarter to benefit from the inclusion of Cornerstone Brands, Inc., which was acquired on April 1, 2005.

Operating income grew 53% to $43.3 million, due to the increase in Operating Income Before Amortization described above.

International

Revenue grew 8% to $100.9 million in U.S. dollars, or 3% on a local currency basis, due primarily to increased revenues at HSE-Germany, driven by lower return rates and growth in the online business.

Operating Income Before Amortization and operating income increased to $2.8 million and $2.5 million, respectively, primarily reflecting the growth in HSE-Germany revenue noted above.

Services

Revenues, Operating Income Before Amortization and operating income increased period over period principally due to increased contribution from the Financial Services and Real Estate segment as well as the acquisition of ServiceMagic in September 2004. The results of the Ticketing segment remained relatively constant during the quarter.

Ticketing

Revenue grew 4% to $211.3 million, reflecting a 4% increase in the number of tickets sold partially offset by a 2% decrease in the average revenue per ticket. The decrease in average revenue per ticket resulted from a higher mix of international tickets, partially offset by an increase in domestic average revenue per ticket. International revenue increased by 25%, or 19% on a local currency basis, due primarily to the acquisitions in Sweden and Finland in the second half of 2004 and increased ticket sales in the United Kingdom and Canada. These increases were partially offset by the loss of license income from the Athens 2004 Summer Olympics. U.S. revenues declined by 1% from lower ticket sales, primarily due to the timing of concert on-sales versus the prior year partially offset by increases in other revenue.

Operating Income Before Amortization remained flat at $47.0 million, reflecting the higher revenue offset by increased costs associated with the development and support of ticketing technology and higher domestic ticket royalties. 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. We believe over time we can offset these increases with other operating leverage, as we foresee volume growth domestically and internationally for the balance of the year.

Operating income decreased 2% to $40.0 million, reflecting the results discussed above and a $1.1 million increase in the amortization of intangibles.

Financial Services and Real Estate

Revenue grew 166% to $105.8 million, driven primarily by increased revenue per transaction in the lending business, 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 14% to $7.2 billion in 2005, led by refinance activity of $4.2 billion, home equity loans of $1.3 billion and purchase mortgages of $1.5 billion. The dollar value of closed loans in 2004 was $6.3 billion, including refinance mortgages of $3.5 billion, home equity loans of $1.4 billion and purchase mortgages of $1.1 billion. Revenue from the real estate businesses grew, driven by a higher number of referrals and closings.

Operating Income Before Amortization increased 215% to $9.7 million, primarily due to the growth in revenues reflecting in part higher revenue per closing at LendingTree Loans, partially offset by increased marketing costs and customer rebates for real estate.

Operating loss improved 8% to a loss of $3.3 million, primarily due to the increase in Operating Income Before Amortization described above, partially offset by a $6.5 million increase in amortization of intangibles.

Teleservices

Revenue grew 7% to $77.1 million, from the prior year primarily due to increased business with existing clients, both domestically and internationally.

Operating income and Operating Income Before Amortization each increased $1.0 million, or 33%, to $4.2 million, due to increased revenues and lower operating expenses, including lower depreciation expense and fixed costs.

Revenue includes $8.1 million and $5.3 million in 2005 and 2004, respectively, for services provided to other IAC businesses.

Media & Advertising

Revenues grew 56% to $9.0 million, primarily due to increased revenues at Citysearch. Citysearch's revenues grew 50% 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.

Operating Income Before Amortization loss improved 80% to a loss of $0.9 million, resulting from narrowed losses at Citysearch as Citysearch continues to benefit from higher revenues along with cost cutting initiatives.

Operating loss improved 94% to a loss of $1.0 million primarily reflecting the decrease in the Operating Income Before Amortization loss described above as well as a decrease of $11.6 million in the amortization of intangibles which resulted from certain intangibles becoming fully amortized in 2004.

Membership & Subscriptions

Revenues and operating income for the Membership & Subscriptions sector increased period over period due to membership and subscriber growth at the Vacations and Personals segments, respectively, partially offset by declines in the Discounts segment. Operating Income Before Amortization increased period over period but was negatively impacted by the Discounts segment as its results are significantly seasonal with the majority of its profitability experienced in the fourth quarter.

Vacations

Vacations grew revenues by 8% to $75.0 million, primarily driven by growth in membership and transaction revenues. The increase in membership revenues was due primarily to renewal memberships, and the increase in transaction revenue was due primarily to higher average fees, as well as an increase in volume. The number of active members increased 6% to 1.7 million at March 31, 2005.

Operating Income Before Amortization increased 27% to $33.1 million impacted by an increase in online transactions which resulted in lower operating expenses.

Operating income increased 36% to $26.8 million, reflecting the increase in Operating Income Before Amortization noted above.

Personals

Revenue grew 11% to $54.2 million, reflecting a 6% increase in paid subscribers to 1.1 million and an increase in the average revenue per subscriber due to higher package prices implemented in early 2005. International subscribers grew 24% over the prior year driven by continued focus on its international expansion efforts, excluding declines at uDate of 26%.

Operating Income Before Amortization decreased 14% to $5.4 million in 2005 and was negatively impacted by higher customer acquisition costs relating primarily to the company's new marketing campaign offset by the increased revenues noted above.

Operating income increased 54% to $4.4 million, reflecting a decrease of $0.7 million in non-cash distribution and marketing expense and a $1.8 million decrease in the amortization of intangibles which resulted from certain intangibles becoming fully amortized in 2004 and early 2005. These items were partially offset by a decrease in Operating Income Before Amortization described above.

Discounts

Discounts revenue decreased 6% to $24.6 million, due primarily to the decline in the company's core fundraising channels, partially offset by growth in the online businesses. Discounts results are significantly seasonal with the majority of its profitability experienced in the fourth quarter.

Operating Income Before Amortization and operating income decreased $3.4 million and $2.9 million, respectively, primarily due to the decrease in revenues noted above as well as severance charges recognized in the quarter ended March 31, 2005.

Expedia

Revenue grew 17% to $485.0 million, primarily driven by the merchant hotel business, including revenues generated from international websites, the air business and the results from acquisitions including TripAdivsor and eLong.

Revenue from international websites increased 62%, or 56% on a local currency basis, to $99.6 million in 2005 from $61.5 million in 2004. The United Kingdom, German and Canadian websites, as well as the acquisition of Expedia Corporate Travel-Europe, contributed to the continued international growth in the merchant hotel and air businesses.

Merchant hotel revenue increased 7% 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 4% to 7.3 million, reflecting continued growth in demand from our international websites partially offset by a decline in the domestic business. Revenue per room night increased 7% due primarily to increases in average daily room rates, partially offset by a decline 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.

Expedia's U.S. merchant hotel business continues to operate in a more challenging environment than in the prior year, due primarily to increased competition from third party distributors, increased promotion by hotel chains of their own direct sites and higher overall occupancy rates, resulting in decreased availability of favorably priced travel products and services compared to the prior year. These trends are generally expected to continue.

Revenue from the air business increased 16% from 2004, driven primarily from a 24% increase in air tickets sold, partially offset by a decline in air revenue per ticket.

Overall revenue margins (defined as net revenue as a percent of gross bookings) decreased by 50 basis points due primarily to lower merchant hotel raw margins and lower air revenue per ticket, partially offset by higher merchant hotel average daily rates. A higher mix of air revenue also contributed to the decrease. We expect these trends to continue in the near term.

Operating Income Before Amortization grew 38% to $140.0 million, due primarily to increased revenues, results from acquisitions, higher gross margins and operating efficiencies, partially offset by a 5% increase in selling and marketing expense reflecting the impact of increased international spending. The increase in selling and marketing expenses was driven by greater emphasis on our international businesses, which have a higher selling and marketing cost relative to revenue due to earlier stages of development. International selling and marketing expense increased 60%. The inclusion of the results of TripAdvisor also contributed to the increase in selling and marketing expense. We expect that the second quarter growth rates in Operating Income Before Amortization will be lower than the first quarter due to an expected increase in the growth rate of selling and marketing expense relative to the first quarter and the reversal of $6.4 million of expenses associated with the resolution of a contractual dispute which benefited results in the second quarter of 2004.

Operating income grew 62% to $107.7 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 $4.6 million.

Corporate and Other

Corporate operating expenses in 2005 were $79.6 million compared with $89.8 million in 2004, reflecting a decrease in non-cash compensation of $18.4 million, or 27%, in 2005 due primarily to a decrease in expense associated with unvested stock options, warrants and restricted stock units assumed in the buy-ins of Ticketmaster, Hotels.com and Expedia.com. 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 pending transactions, including the Spin-Off. This decrease in corporate operating expenses was partially offset by an increase of $4.9 million related to expenses incurred in the first quarter of 2005 associated with the Spin-Off.

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 March 31,	
	2005	2004
	(In Thousands)	
Operating Income Before Amortization	$ 256,502	$ 194,287
Amortization of non-cash distribution and marketing expense	(432)	(6,339)
Amortization of non-cash compensation expense	(50,529)	(68,968)
Amortization of intangibles	(74,376)	(78,297)
Operating income	131,165	40,683
Interest income	54,009	45,208
Interest expense	(21,663)	(19,393)
Equity in losses of VUE	(21,166)	(352)
Equity in income of unconsolidated affiliates and other	4,920	7,175
Income tax expense	(71,712)	(28,824)
Minority interest in income of consolidated subsidiaries	(351)	(511)
Loss from discontinued operations, net of tax	(2,990)	(2,459)
Preferred dividends	(3,263)	(3,264)
Net earnings available to common shareholders	$ 68,949	$ 38,263

RECONCILIATION OF NON-GAAP MEASURE

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

	For the three months ended March 31, 2005		
	Operating Income Before Amortization	Amortization of non-cash items	Operating income (loss)
Retailing:			
U.S	$ 56.5	$ (13.2)	$ 43.3
International	2.8	(0.3)	2.5
Total Retailing	59.3	(13.6)	45.7
Services:			
Ticketing	47.0	(7.0)	40.0
Financial Services and Real Estate	9.7	(13.0)	(3.3)
Teleservices	4.2	—	4.2
Home Services	2.0	0.4	2.4
Total Services	62.9	(19.6)	43.4
Media & Advertising	(0.9)	(0.1)	(1.0)
Membership & Subscriptions:			
Vacations	33.1	(6.3)	26.8
Personals	5.4	(1.1)	4.4
Discounts	(12.0)	(1.6)	(13.6)
Total Membership & Subscriptions	26.6	(9.0)	17.6
Expedia	140.0	(32.3)	107.7
Emerging Businesses	(2.5)	(0.1)	(2.6)
Corporate and other	(28.9)	(50.7)	(79.6)
TOTAL	$ 256.5	$ (125.3)	$ 131.2
Other income, net			16.1
Earnings from continuing operations before income taxes and minority interest			147.3
Income tax expense			(71.7)
Minority interest in income of consolidated subsidiaries			(0.4)
Earnings from continuing operations			75.2
Discontinued operations			(3.0)
Earnings before preferred dividends			72.2
Preferred dividends			(3.3)
Net earnings available to common shareholders			$ 68.9

	For the three months ended March 31, 2004		
	Operating Income Before Amortization	**Amortization of non-cash items**	**Operating income (loss)**
Retailing:			
U.S	$ 41.6	$ (13.2)	$ 28.4
International	1.3	(0.3)	0.9
Total Retailing	42.9	(13.6)	29.3
Services:			
Ticketing	46.8	(6.2)	40.7
Financial Services and Real Estate	3.1	(6.6)	(3.6)
Teleservices	3.2	—	3.2
Total Services	53.1	(12.8)	40.3
Media & Advertising	(4.7)	(12.1)	(16.8)
Membership & Subscriptions:			
Vacations	26.1	(6.3)	19.8
Personals	6.3	(3.5)	2.8
Discounts	(8.6)	(2.1)	(10.7)
Total Membership & Subscriptions	23.8	(11.9)	11.9
Expedia	101.7	(35.1)	66.5
Emerging Businesses	(0.7)	—	(0.7)
Corporate and other	(21.7)	(68.1)	(89.8)
TOTAL	$ 194.3	$ (153.6)	$ 40.7
Other income, net			32.6
Earnings from continuing operations before income taxes and minority interest			73.3
Income tax expense			(28.8)
Minority interest in income of consolidated subsidiaries			(0.5)
Earnings from continuing operations			44.0
Discontinued operations			(2.5)
Earnings before preferred dividends			41.5
Preferred dividends			(3.3)
Net earnings available to common shareholders			$ 38.3

QuickLinks