IAC/INTERACTIVECORP
Form 10-Q
October 29, 2010

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As filed with the Securities and Exchange Commission on October 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2010

Or

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

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

IAC/INTERACTIVECORP

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

As of October 22, 2010, the following shares of the registrant's common stock were outstanding:

Common Stock	87,582,242
Class B Common Stock	12,799,999
Total outstanding Common Stock	100,382,241

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of October 22, 2010 was $2,160,316,388. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

PART I
FINANCIAL INFORMATION

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	September 30, 2010 (unaudited)	December 31, 2009 (audited)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 902,214	$ 1,245,997
Marketable securities	471,215	487,591
Accounts receivable, net of allowance of $11,004 and $11,283, respectively	113,251	101,834
Other current assets	144,898	164,627
Total current assets	1,631,578	2,000,049
Property and equipment, net	282,143	297,412
Goodwill	1,047,139	999,355
Intangible assets, net	262,221	261,172
Long-term investments	209,890	272,930
Other non-current assets	179,227	184,971
TOTAL ASSETS	$ 3,612,198	$ 4,015,889
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable, trade	$ 43,292	$ 39,173
Deferred revenue	72,694	57,822
Accrued expenses and other current liabilities	202,051	193,282
Total current liabilities	318,037	290,277
Long-term debt	95,844	95,844
Income taxes payable	467,130	450,129
Other long-term liabilities	19,302	23,633
Redeemable noncontrolling interests	60,192	28,180
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Common stock $.001 par value; authorized 1,600,000,000 shares; issued 225,183,876 and 222,657,925 shares, respectively, and outstanding 87,558,245 and 108,131,736 shares, respectively	225	223
Class B convertible common stock $.001 par value; authorized 400,000,000 shares; issued 16,157,499 shares and outstanding 12,799,999 shares	16	16
Additional paid-in capital	11,381,922	11,322,993
Accumulated deficit	(738,982)	(751,377)

Accumulated other comprehensive income		7,929		24,503
Treasury stock 137,625,631 and 114,526,189 shares, respectively		(7,999,417)		(7,468,532)
Total shareholders' equity		2,651,693		3,127,826
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	3,612,198	$	4,015,889

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands, except per share data)			
Revenue	$ 421,652	$ 336,577	$ 1,210,436	$ 1,008,632
Costs and expenses:				
Cost of revenue (exclusive of depreciation shown separately below)	148,558	106,029	422,704	323,462
Selling and marketing expense	123,347	107,603	379,153	360,121
General and administrative expense	78,327	72,314	236,387	218,802
Product development expense	17,812	12,972	47,974	45,092
Depreciation	15,364	15,289	50,608	48,380
Amortization of intangibles	2,310	10,250	10,423	26,311
Amortization of non-cash marketing		4,999		7,504
Goodwill impairment				1,056
Total costs and expenses	385,718	329,456	1,147,249	1,030,728
Operating income (loss)	35,934	7,121	63,187	(22,096)
Other income (expense):				
Interest income	1,550	2,374	4,851	8,546
Interest expense	(1,321)	(1,345)	(3,967)	(4,070)
Equity in losses of unconsolidated affiliates	(547)	(3,961)	(27,162)	(7,973)
Other income, net	586	53,892	5,259	115,849
Total other income (expense), net	268	50,960	(21,019)	112,352
Earnings from continuing operations before income taxes	36,202	58,081	42,168	90,256
Income tax provision	(14,820)	(34,269)	(23,785)	(53,733)
Earnings from continuing operations	21,382	23,812	18,383	36,523
Loss from discontinued operations, net of tax	(3,737)	(2,514)	(7,227)	(3,472)
Net earnings	17,645	21,298	11,156	33,051
Net (earnings) loss attributable to noncontrolling interests	(136)	384	1,239	1,058
Net earnings attributable to IAC shareholders	$ 17,509	$ 21,682	$ 12,395	$ 34,109
Per share information attributable to IAC shareholders:				
Basic earnings per share from continuing operations	$ 0.21	$ 0.18	$ 0.18	$ 0.26
Diluted earnings per share from continuing operations	$ 0.20	$ 0.18	$ 0.17	$ 0.26
Basic earnings per share	$ 0.17	$ 0.16	$ 0.11	$ 0.24
Diluted earnings per share	$ 0.16	$ 0.16	$ 0.11	$ 0.24
Non-cash compensation expense by function:				
Cost of revenue	$ 1,113	$ 819	$ 3,065	$ 2,148
Selling and marketing expense	889	733	2,843	2,270
General and administrative expense	13,903	13,694	50,782	40,882
Product development expense	1,427	1,269	4,295	3,387
Total non-cash compensation expense	$ 17,332	$ 16,515	$ 60,985	$ 48,687

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

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IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings	$ 11,156	$ 33,051
Less: from discontinued operations, net of tax	7,227	3,472
Earnings from continuing operations	18,383	36,523
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Depreciation	50,608	48,380
Amortization of intangibles	10,423	26,311
Amortization of non-cash marketing		7,504
Goodwill impairment		1,056
Impairment of long-term investment		4,785
Non-cash compensation expense	60,985	48,687
Deferred income taxes	6,987	83,278
Equity in losses of unconsolidated affiliates	27,162	7,973
Gain on sale of Match Europe		(132,244)
Gain on sales of investments	(3,989)	(25,570)
Decrease in the fair value of the derivative asset related to Arcandor AG stock		38,204
Changes in current assets and liabilities:		
Accounts receivable	(15,809)	(2,045)
Other current assets	1,451	(2,614)
Accounts payable and other current liabilities	8,007	(1,077)
Income taxes payable	17,678	(13,820)
Deferred revenue	15,628	9,677
Other, net	8,048	11,300
Net cash provided by operating activities attributable to continuing operations	205,562	146,308
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(17,334)	(85,534)
Capital expenditures	(34,042)	(28,854)
Proceeds from sales and maturities of marketable debt securities	607,127	150,257
Purchases of marketable debt securities	(600,993)	(367,573)
Proceeds from sales of investments	5,325	58,123
Purchases of long-term investments	(1,630)	(2,982)
Dividend received from Meetic, an equity method investee	11,355	
Receivable created in the sale of Match Europe		(6,829)
Other, net	(127)	(7,873)
Net cash used in investing activities attributable to continuing operations	(30,319)	(291,265)
Cash flows from financing activities attributable to continuing operations:		
Purchase of treasury stock	(537,824)	(336,537)
Issuance of common stock, net of withholding taxes	13,263	150,032
Excess tax benefits from stock-based awards	6,551	368
Settlement of vested stock-based awards denominated in a subsidiary's equity		(14,000)
Other, net	46	1,111
Net cash used in financing activities attributable to continuing operations	(517,964)	(199,026)

Total cash used in continuing operations	(342,721)	(343,983)
Net cash used in operating activities attributable to discontinued operations	(396)	(930)
Effect of exchange rate changes on cash and cash equivalents	(666)	5,689
Net decrease in cash and cash equivalents	(343,783)	(339,224)
Cash and cash equivalents at beginning of period	1,245,997	1,744,994
Cash and cash equivalents at end of period	$ 902,214	$ 1,405,770

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Accounting Estimates

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

judgments on historical experience, its forecasts and budgets and other factors that the Company considers relevant.

Certain Risks and Concentrations

A significant portion of the Company's revenue is derived from online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or changes in customer buying behavior or advertiser spending behavior could adversely affect our operating results. A significant majority of the Company's online advertising is attributable to a paid listing supply agreement with Google Inc. ("Google"), which expires on December 31, 2012. For the three and nine months ended September 30, 2010, revenue earned from Google was $180.1 million and $530.7 million, respectively. For the three and nine months ended September 30, 2009, revenue earned from Google was $140.6 million and $406.0 million, respectively. The majority of this revenue is earned by the businesses comprising the Search segment. Accounts receivable related to revenue earned from Google totaled $60.9 million at September 30, 2010 and $55.0 million at December 31, 2009.

The termination of the paid listing supply agreement by Google or the failure of Google to perform its obligations under the agreement would have an adverse effect on our business, financial condition and results of operations. If this were to occur, we may not be able to find another suitable alternate paid listings provider (or if so, the terms of the agreements and the quality of paid listings may be inferior relative to our arrangements with, and the paid listings supplied by, Google) or otherwise replace the lost revenues.

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS

Property and equipment, net

	September 30, 2010	December 31, 2009
	(In thousands)	
Buildings and leasehold improvements	$ 224,693	$ 233,829
Computer equipment and capitalized software	203,840	188,283
Furniture and other equipment	51,595	41,134
Projects in progress	9,269	8,655
Land	5,117	5,117
	494,514	477,018
Less: accumulated depreciation and amortization	(212,371)	(179,606)
Property and equipment, net	$ 282,143	$ 297,412

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS (Continued)

Redeemable noncontrolling interests

	September 30, 2010	December 31, 2009
	(In thousands)	
Balance at January 1	$ 28,180	$ 22,771
Noncontrolling interests related to acquisitions	23,544	3,561
Contribution from owners of noncontrolling interests	46	1,750
Distribution to owners of noncontrolling interests		(216)
Net loss attributable to noncontrolling interests	(1,239)	(1,090)
Change in fair value of redeemable noncontrolling interests	(5,721)	1,033
Noncontrolling interest created by a decrease in ownership of a subsidiary	15,750	
Change in effect of foreign currency translation	(368)	371
Balance at end of period	$ 60,192	$ 28,180

Accumulated other comprehensive income

	September 30, 2010	December 31, 2009
	(In thousands)	
Foreign currency translation, net of tax	$ 7,796	$ 20,264
Unrealized gains on available-for-sale securities, net of tax	133	4,239
Accumulated other comprehensive income, net of tax	$ 7,929	$ 24,503

Other income, net

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands)			
Gain on sale of Match Europe(a)	$	$ 15,437	$	$ 132,244
Net decrease in the fair value of the derivative asset related to Arcandor AG ("ARO") stock				(38,204)
Gain on sales of investments		37,875	3,989	25,570
Impairment of shares of ARO stock		(558)		(4,442)
Other income	586	1,138	1,270	681
Other income, net	$ 586	$ 53,892	$ 5,259	$ 115,849

(a)
The gain recorded on the sale of Match Europe to Meetic S.A. ("Meetic") was increased by $15.4 million during the third quarter of 2009 due to a reduction in the goodwill allocated to

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS (Continued)

Match Europe upon its sale reflecting a more time proximate estimate of the fair value of the Match reporting unit as of the date of sale.

Comprehensive income (loss)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands)			
Net earnings attributable to IAC shareholders	$ 17,509	$ 21,682	$ 12,395	$ 34,109
Foreign currency translation, net of tax	1,195	3,605	(12,468)	10,528
Changes in net unrealized gains (losses) on available-for-sale securities, net of tax	3,636	(22,536)	(4,106)	9,235
Other comprehensive income (loss)	4,831	(18,931)	(16,574)	19,763
Comprehensive income (loss)	$ 22,340	$ 2,751	$ (4,179)	$ 53,872

The specific-identification method is used to determine the cost of a security sold or the amount of unrealized gains and losses reclassified from other comprehensive income into earnings. The amount of unrealized gains, net of tax, reclassified from other comprehensive income and recognized into earnings related to the sales and maturities of available-for-sale securities for the three and nine months ended September 30, 2010 were $0.2 million and $2.9 million, respectively. The amount of unrealized gains, net of tax, reclassified from other comprehensive income and recognized into earnings related to the sales and maturities of available-for-sale securities for the three and nine months ended September 30, 2009 was $26.1 million and $0.6 million, respectively.

NOTE 3 INCOME TAXES

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

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected pre-tax income (or loss) for the year, projections of the proportion of income (and/or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of the realizability of deferred tax assets generated in the current year. The accounting estimates used to compute the provision or benefit for income taxes may change as new events occur, more experience is acquired, additional information is obtained or our tax environment changes. To the extent that the expected annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the quarter in which the change occurs. Included in the income tax provision for the three months ended September 30, 2009 is a provision of $14.1 million due to a lower estimated annual effective tax rate from that applied to ordinary loss from continuing operations through the six months ended June 30,

NOTE 3 INCOME TAXES (Continued)

2009. The lower estimated annual effective tax rate was primarily due to the reduced impact that forecasted non-deductible and non-taxable items had on a change in forecasted ordinary pre-tax income.

For the three and nine months ended September 30, 2010, the Company recorded an income tax provision for continuing operations of $14.8 million and $23.8 million, respectively, which represent effective tax rates of 41% and 56%, respectively. The tax rate for the three months ended September 30, 2010 is higher than the federal statutory rate of 35% due principally to state taxes and interest on tax contingencies, partially offset by the reversal of a valuation allowance on the deferred tax asset related to an unconsolidated affiliate and foreign income taxed at lower rates. The tax rate for the nine months ended September 30, 2010 is higher than the federal statutory rate of 35% due principally to interest on tax contingencies, a valuation allowance on the deferred tax asset created by the impairment charge for our investment in The HealthCentral Network, Inc. ("HealthCentral"), and state taxes, partially offset by foreign tax credits and the reversal of a valuation allowance on the deferred tax asset related to an unconsolidated affiliate.

For the three and nine months ended September 30, 2009, the Company recorded an income tax provision for continuing operations of $34.3 million and $53.7 million, respectively, which represent effective tax rates of 59% and 60%, respectively. The tax rate for the three months ended September 30, 2009 is higher than the federal statutory rate of 35% due principally to a change in the estimated annual effective tax rate, interest on tax contingencies and state taxes, partially offset by a non-taxable gain associated with the sale of Match Europe and net adjustments related to the reconciliation of tax returns to provision accruals. The tax rate for the nine months ended September 30, 2009 is higher than the federal statutory rate of 35% due principally to non-deductible goodwill associated with the sale of Match Europe, an increase in reserves and related interest for tax contingencies, and an increase in valuation allowances on deferred tax assets related to the impairments of the Company's shares of ARO stock and the related contingent value right ("CVR"), offset by foreign tax credits related to the sale of Match Europe.

At September 30, 2010 and December 31, 2009, unrecognized tax benefits, including interest, were $479.6 million and $462.9 million, respectively. Of the total unrecognized tax benefits as of September 30, 2010, $467.1 million is included in "non-current income taxes payable," $11.8 million relates to deferred tax assets included in "other non-current assets" and $0.7 million is included in "accrued expenses and other current liabilities." Included in unrecognized tax benefits at September 30, 2010 is $105.5 million relating to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. If unrecognized tax benefits as of September 30, 2010 are subsequently recognized, $102.9 million and $197.8 million, net of related deferred tax assets and interest, would reduce income tax expense from continuing operations and discontinued operations, respectively. In addition, a continuing operations tax provision of $4.5 million would be required upon the subsequent recognition of unrecognized tax benefits for an increase in the Company's valuation allowance against certain deferred tax assets.

The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense from continuing operations for the three and nine months ended September 30, 2010 is a $2.5 million expense, net of related deferred taxes of $1.7 million, and a $7.2 million expense, net of related deferred taxes of $4.9 million, respectively, for interest on unrecognized tax benefits. At September 30, 2010 and December 31, 2009, the Company

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (Continued)

has accrued $90.4 million and $68.7 million, respectively, for the payment of interest. At September 30, 2010 and December 31, 2009, the Company has accrued $5.0 million for penalties.

The Company is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. The Internal Revenue Service is currently examining the Company's tax returns for the years ended December 31, 2001 through 2006. The statute of limitations for these years has been extended to December 31, 2011. Various state, local and foreign jurisdictions are currently under examination, the most significant of which are California, New York and New York City, for various tax years beginning with December 31, 2003. These examinations are expected to be completed by 2011. Income taxes payable include reserves considered sufficient to pay assessments that may result from examination of prior year tax returns. Changes to reserves from period to period and differences between amounts paid, if any, upon resolution of issues raised in audits and amounts previously provided may be material. Differences between the reserves for tax contingencies and the amounts owed by the Company are recorded in the period they become known. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by $19.9 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will primarily result in a corresponding increase in net deferred tax liabilities, the reversal of state tax reserves based upon the receipt of favorable income tax rulings, statute of limitations expirations, and settlements. An estimate of other changes in unrecognized tax benefits, while potentially significant, cannot be made.

NOTE 4 MARKETABLE SECURITIES

At September 30, 2010, available-for-sale marketable securities were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$ 182,452	$ 937	$ (38)	$ 183,351
States of the U.S. and state political subdivisions	112,294	697	(47)	112,944
U.S. Treasury securities	174,911	13	(4)	174,920
Total debt securities	469,657	1,647	(89)	471,215
Total marketable securities	$ 469,657	$ 1,647	$ (89)	$ 471,215

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 MARKETABLE SECURITIES (Continued)

At December 31, 2009, available-for-sale marketable securities were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$ 194,609	$ 841	$ (258)	$ 195,192
States of the U.S. and state political subdivisions	110,650	1,228	(15)	111,863
U.S. Treasury securities	174,929	16	(2)	174,943
Other fixed term obligations	705		(17)	688
Total debt securities	480,893	2,085	(292)	482,686
Equity securities	1,336	3,569		4,905
Total marketable securities	$ 482,229	$ 5,654	$ (292)	$ 487,591

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

The contractual maturities of debt securities classified as available-for-sale as of September 30, 2010 are as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 352,943	$ 353,798
Due after one year through five years	116,714	117,417
Total	$ 469,657	$ 471,215

The following tables summarize those investments with unrealized losses that have been in a continuous unrealized loss position for less than twelve months and those in a continuous unrealized loss position for twelve months or longer (in thousands):

	As of September 30, 2010					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 30,327	$ (38)	$	$	$ 30,327	$ (38)
States of the U.S. and state political subdivisions	20,407	(47)			20,407	(47)
U.S. Treasury securities	49,956	(4)			49,956	(4)
Total	$ 100,690	$ (89)	$	$	$ 100,690	$ (89)

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 MARKETABLE SECURITIES (Continued)

	As of December 31, 2009					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 74,839	$ (176)	$ 519	$ (82)	$ 75,358	$ (258)
States of the U.S. and state political subdivisions	4,501	(15)			4,501	(15)
U.S. Treasury securities	49,965	(2)			49,965	(2)
Other fixed term obligations			688	(17)	688	(17)
Total	$ 129,305	$ (193)	$ 1,207	$ (99)	$ 130,512	$ (292)

All of the Company's debt securities are rated investment grade. Because the Company does not intend to sell any marketable securities and it is not more likely than not that the Company will be required to sell any marketable securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider any of its marketable securities to be other-than-temporarily impaired at September 30, 2010.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Proceeds from sales and maturities of available-for-sale marketable securities	$ 240,584	$ 143,280	$ 612,452	$ 208,380
Gross realized gains	328	38,413	4,660	38,788
Gross realized losses		(1)	(7)	(12,306)

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

NOTE 5 EQUITY METHOD INVESTMENTS IN UNCONSOLIDATED AFFILIATES

At September 30, 2010 and December 31, 2009, the Company's investments in unconsolidated affiliates accounted for under the equity method totaled $137.8 million and $200.4 million, respectively, and are included in "Long-term investments" in the accompanying consolidated balance sheet.

During the first quarter of 2010, the Company recorded an $18.3 million impairment charge to write-down its investment in HealthCentral to fair value. The decline in value was determined to be other-than-temporary due to HealthCentral's continued losses and negative operating cash flows, which are due, in part, to macroeconomic and industry specific factors. The valuation of our investment in HealthCentral reflects the Company's assessment of these factors. The Company estimated the fair value of its investment in HealthCentral using a multiple of revenue approach in the context of a different valuation environment than that which prevailed when our initial investment was made.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 EQUITY METHOD INVESTMENTS IN UNCONSOLIDATED AFFILIATES (Continued)

The Company records its share of the results of HealthCentral on a one-quarter lag and, along with the related impairment charge described above, includes it within "Equity in losses of unconsolidated affiliates" in the accompanying consolidated statement of operations.

Summarized financial information for HealthCentral is as follows:

	Nine Months Ended June 30,	
	2010	2009
	(In thousands)	
Net sales	$ 14,045	$ 10,619
Gross profit	$ 9,000	$ 7,207
Net loss	$ (8,178)	$ (7,939)

NOTE 6 FAIR VALUE MEASUREMENTS

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

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

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

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FAIR VALUE MEASUREMENTS (Continued)

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

	September 30, 2010			
	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
	(In thousands)			
Cash equivalents:				
Treasury and government agency money market funds	$ 420,646	$	$	$ 420,646
Commercial paper		336,461		336,461
Time deposits		88,550		88,550
Marketable securities:				
Corporate debt securities		183,351		183,351
States of the U.S. and state political subdivisions		112,944		112,944
U.S. Treasury securities	174,920			174,920
Long-term investments:				
Marketable equity security	14,152			14,152
Auction rate securities			12,350	12,350
Total	$ 609,718	$ 721,306	$ 12,350	$ 1,343,374

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2009			
	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
	(In thousands)			
Cash equivalents:				
Treasury and government agency money market funds	$ 807,257	$	$	$ 807,257
Commercial paper		300,226		300,226
U.S. Treasury securities	25,000			25,000
Time deposits		41,850		41,850
Corporate debt securities		1,915		1,915
Marketable securities:				
Corporate debt securities		195,192		195,192
States of the U.S. and state political subdivisions		111,863		111,863
U.S. Treasury securities	174,943			174,943
Other fixed term obligations		688		688
Equity securities	4,905			4,905
Long-term investments:				
Marketable equity security	15,608			15,608
Auction rate securities			12,635	12,635
Total	$ 1,027,713	$ 651,734	$ 12,635	$ 1,692,082

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

	Three Months Ended September 30,		
	2010	2009	
	Auction Rate Securities	Auction Rate Securities	Derivative Asset Related to ARO Stock
	(In thousands)		
Balance at July 1	$ 11,255	$ 11,370	$ 18,850
Total net gains (realized and unrealized):			
Included in other comprehensive income	1,095	1,015	730
Balance at September 30	$ 12,350	$ 12,385	$ 19,580

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FAIR VALUE MEASUREMENTS (Continued)

	Nine Months Ended September 30,		
	2010	2009	
	Auction Rate Securities	Auction Rate Securities	Derivative Asset Related to ARO Stock
		(In thousands)	
Balance at January 1	$ 12,635	$ 10,725	$ 57,189
Total net gains (losses) (realized and unrealized):			
Included in earnings			(38,204)
Included in other comprehensive income	(285)	1,660	595
Balance at September 30	$ 12,350	$ 12,385	$ 19,580

The losses included in earnings relating to the Company's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs were unrealized and are included in "Other income, net" in the accompanying consolidated statement of operations.

Marketable equity security

The cost basis of this marketable equity security is $12.9 million at September 30, 2010 and December 31, 2009, with gross unrealized gains of $1.3 million and $2.7 million at September 30, 2010 and December 31, 2009, respectively, included in "Accumulated other comprehensive income" in the accompanying consolidated balance sheet.

Auction rate securities

Historically, the Company's auction rate securities ("ARS") had determinable market values arising from the auction process. However, these auctions began to fail in the third quarter of 2007. As a result of these failed auctions, the ARS no longer have readily determinable market values and are instead valued by discounting the estimated future cash flow streams of the securities over the lives of the securities. Credit spreads and other risk factors are also considered in establishing a fair value. At September 30, 2010, the ARS are rated either A+/WR or A/WR. The cost basis of these ARS is $15.0 million at September 30, 2010 and December 31, 2009, with gross unrealized losses of $2.7 million and $2.4 million at September 30, 2010 and December 31, 2009, respectively. Due to their high credit rating and because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before the recovery of their amortized cost bases, which may be maturity, the Company does not consider the ARS to be other-than-temporarily impaired at September 30, 2010. The unrealized losses are included in "Accumulated other comprehensive income" in the accompanying consolidated balance sheet. The ARS mature in 2025 and 2035.

Derivative asset related to ARO stock

The CVR was accounted for as a derivative asset and maintained at fair value relying on significant unobservable inputs including credit risk. During the fourth quarter of 2009, the Company wrote the value of the CVR down to zero. This reflected the increased credit risk due to ARO's insolvency filing and the Company's assessment of the value that it expects to recover.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value on a nonrecurring basis

The Company's non-financial assets, such as goodwill, intangible assets and property and equipment, as well as equity and cost method investments, are measured at fair value only when an impairment charge is recognized. Such impairment charges incorporate fair value measurements based on level 3 inputs. See Note 5 for a description of an impairment charge recorded in the first quarter of 2010 related to an equity method investment.

NOTE 7 FINANCIAL INSTRUMENTS

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

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Cash and cash equivalents	$ 902,214	$ 902,214	$ 1,245,997	$ 1,245,997
Marketable securities	471,215	471,215	487,591	487,591
Long-term marketable equity security	14,152	14,152	15,608	15,608
Auction rate securities	12,350	12,350	12,635	12,635
Notes receivable	3,811	3,277	3,271	2,426
Long-term debt	(95,844)	(90,829)	(95,844)	(77,123)
Guarantee and letters of credit	N/A	(346)	N/A	(535)

The carrying amounts of cash equivalents approximate fair value due to their short-term maturity. The fair value of notes receivable is based on discounting the expected future cash flow streams using yields of the underlying credit. The fair value of long-term debt is estimated using quoted market prices or indices for similar liabilities and taking into consideration other factors such as credit quality and maturity. The fair values of the guarantee and letters of credit are based on the present value of the costs associated with maintaining these instruments over their expected term. See Note 4 for discussion of the fair value of marketable securities and Note 6 for discussion of the fair value of the long-term marketable equity security and auction rate securities.

Investments accounted for under the cost method are included in "Long-term investments" in the accompanying consolidated balance sheet and have a carrying value of $45.5 million and $44.3 million at September 30, 2010 and December 31, 2009, respectively. The Company evaluates each cost method investment for impairment on a quarterly basis and recognizes an impairment loss if a decline in value is determined to be other-than-temporary. Such impairment evaluations include, but are not limited to: the current business environment, including competition; going concern considerations such as financial condition, the rate at which the investee company utilizes cash and the investee company's ability to obtain additional financing to achieve its business plan; the need for changes to the investee company's existing business model due to changing business environments and its ability to successfully implement necessary changes; and comparable valuations. If the Company has not identified events or changes in circumstances that may have a significant adverse effect on the fair value of a cost method investment, then the fair value of such cost method investment is not estimated, as it is impracticable to do so.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 EARNINGS PER SHARE

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

	Three Months Ended September 30,			
	2010		2009	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Earnings from continuing operations	$ 21,382	$ 21,382	$ 23,812	$ 23,812
Net (earnings) loss attributable to noncontrolling interests	(136)	(136)	384	384
Earnings from continuing operations attributable to IAC shareholders	21,246	21,246	24,196	24,196
Loss from discontinued operations, net of tax	(3,737)	(3,737)	(2,514)	(2,514)
Net earnings attributable to IAC shareholders	$ 17,509	$ 17,509	$ 21,682	$ 21,682
Denominator:				
Weighted average basic shares outstanding	103,152	103,152	132,764	132,764
Dilutive securities including stock options, warrants, RSUs and PSUs(a)		3,076		2,103
Denominator for earnings per share weighted average shares(a)	103,152	106,228	132,764	134,867
Earnings (loss) per share attributable to IAC shareholders:				
Earnings per share from continuing operations	$ 0.21	$ 0.20	$ 0.18	$ 0.18
Discontinued operations, net of tax	(0.04)	(0.04)	(0.02)	(0.02)
Earnings per share	$ 0.17	$ 0.16	$ 0.16	$ 0.16

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 EARNINGS PER SHARE (Continued)

	Nine Months Ended September 30,			
	2010		2009	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Earnings from continuing operations	$ 18,383	$ 18,383	$ 36,523	$ 36,523
Net loss attributable to noncontrolling interests	1,239	1,239	1,058	1,058
Earnings from continuing operations attributable to IAC shareholders	19,622	19,622	37,581	37,581
Loss from discontinued operations, net of tax	(7,227)	(7,227)	(3,472)	(3,472)
Net earnings attributable to IAC shareholders	$ 12,395	$ 12,395	$ 34,109	$ 34,109
Denominator:				
Weighted average basic shares outstanding	109,580	109,580	142,289	142,289
Dilutive securities including stock options, warrants, RSUs and PSUs(a)		3,288		1,974
Denominator for earnings per share weighted average shares(a)	109,580	112,868	142,289	144,263
Earnings (loss) per share attributable to IAC shareholders:				
Earnings per share from continuing operations	$ 0.18	$ 0.17	$ 0.26	$ 0.26
Discontinued operations, net of tax	(0.07)	(0.06)	(0.02)	(0.02)
Earnings per share	$ 0.11	$ 0.11	$ 0.24	$ 0.24

(a) If the effect is dilutive, weighted average common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options and warrants and vesting of restricted stock units ("RSUs") and performance stock units ("PSUs"). For the three and nine months ended September 30, 2010, approximately 23.1 million and 23.5 million shares, respectively, related to potentially dilutive securities were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2009, approximately 29.2 million and 30.0 million shares, respectively, related to potentially dilutive securities were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 SEGMENT INFORMATION

The overall concept that IAC employs in determining its operating segments is to present the financial information in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of services or products offered or the target market. Entities included in discontinued operations are excluded from the tables below. Operating segments are combined for reporting purposes if they meet certain aggregation criteria, which principally relate to the similarity of their economic characteristics or, in the case of Media & Other, do not meet the quantitative thresholds that require presentation as separate operating segments.

In the fourth quarter of 2009, IAC renamed and realigned its reportable segments. The Media & Advertising segment was renamed "Search," and the Emerging Businesses segment was renamed "Media & Other." Further, Evite was moved from the Search segment (formerly Media & Advertising) to the Media & Other segment (formerly Emerging Businesses).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Revenue:				
Search	$ 205,075	$ 170,202	$ 601,230	$ 502,758
Match	106,197	80,992	292,433	259,343
ServiceMagic	48,397	43,902	140,128	117,655
Media & Other	62,715	43,497	178,206	134,373
Inter-segment elimination	(732)	(2,016)	(1,561)	(5,497)
Total	$ 421,652	$ 336,577	$ 1,210,436	$ 1,008,632

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Operating Income (Loss):				
Search	$ 28,872	$ 20,154	$ 91,546	$ 30,481
Match	38,126	23,873	77,318	62,012
ServiceMagic	6,205	4,318	14,349	12,001
Media & Other	(4,583)	(8,286)	(17,726)	(31,329)
Corporate	(32,686)	(32,938)	(102,300)	(95,261)
Total	$ 35,934	$ 7,121	$ 63,187	$ (22,096)

The Company's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of non-cash marketing, (3) amortization and impairment of intangibles, (4) goodwill impairment, (5) pro forma adjustments for significant acquisitions, and (6) one-time items. The Company believes this measure is useful to investors because it represents the operating results from IAC's segments, taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to IAC's statement of operations of certain expenses,

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 SEGMENT INFORMATION (Continued)

including non-cash compensation, non-cash marketing, and acquisition related accounting. IAC endeavors to compensate for the limitations of the non-U.S. GAAP measure presented by providing the comparable U.S. GAAP measure with equal or greater prominence, financial statements prepared in accordance with U.S. GAAP, and descriptions of the reconciling items, including quantifying such items, to derive the non-U.S. GAAP measure.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands)			
Operating Income Before Amortization:				
Search	$ 29,268	$ 26,559	$ 92,852	$ 52,695
Match	39,354	26,793	83,264	65,280
ServiceMagic	6,692	9,940	15,676	19,450
Media & Other	(3,638)	(7,715)	(13,714)	(28,128)
Corporate	(16,100)	(16,692)	(43,483)	(47,835)
Total	$ 55,576	$ 38,885	$ 134,595	$ 61,462

The following tables reconcile Operating Income Before Amortization to operating income (loss) for the Company's reporting segments and to net earnings attributable to IAC shareholders in total (in thousands):

	Three Months Ended September 30, 2010			
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Intangibles	Operating Income (Loss)
Search	$ 29,268	$ (59)	$ (337)	$ 28,872
Match	39,354		(1,228)	38,126
ServiceMagic	6,692		(487)	6,205
Media & Other	(3,638)	(687)	(258)	(4,583)
Corporate	(16,100)	(16,586)		(32,686)
Total	$ 55,576	$ (17,332)	$ (2,310)	35,934
Other income, net				268
Earnings from continuing operations before income taxes				36,202
Income tax provision				(14,820)
Earnings from continuing operations				21,382
Loss from discontinued operations, net of tax				(3,737)
Net earnings				17,645
Net earnings attributable to noncontrolling interests				(136)
Net earnings attributable to IAC shareholders				$ 17,509

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 SEGMENT INFORMATION (Continued)

	Three Months Ended September 30, 2009				
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Intangibles	Amortization of Non-Cash Marketing	Operating Income (Loss)
Search	$ 26,559	$ (147)	$ (6,258)	$	$ 20,154
Match	26,793	(26)	(2,894)		23,873
ServiceMagic	9,940		(623)	(4,999)	4,318
Media & Other	(7,715)	(96)	(475)		(8,286)
Corporate	(16,692)	(16,246)			(32,938)
Total	$ 38,885	$ (16,515)	$ (10,250)	$ (4,999)	7,121
Other income, net					50,960
Earnings from continuing operations before income taxes					58,081
Income tax provision					(34,269)
Earnings from continuing operations					23,812
Loss from discontinued operations, net of tax					(2,514)
Net earnings					21,298
Net loss attributable to noncontrolling interests					384
Net earnings attributable to IAC shareholders					$ 21,682

	Nine Months Ended September 30, 2010			
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Intangibles	Operating Income (Loss)
Search	$ 92,852	$ (295)	$ (1,011)	$ 91,546
Match	83,264	153	(6,099)	77,318
ServiceMagic	15,676		(1,327)	14,349
Media & Other	(13,714)	(2,026)	(1,986)	(17,726)
Corporate	(43,483)	(58,817)		(102,300)
Total	$ 134,595	$ (60,985)	$ (10,423)	63,187
Other expense, net				(21,019)
Earnings from continuing operations before income taxes				42,168
Income tax provision				(23,785)
Earnings from continuing operations				18,383
Loss from discontinued operations, net of tax				(7,227)

Net earnings		11,156
Net loss attributable to noncontrolling interests		1,239
Net earnings attributable to IAC shareholders	$	12,395

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 SEGMENT INFORMATION (Continued)

	Nine months ended September 30, 2009					
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Intangibles	Amortization of Non-Cash Marketing	Goodwill Impairment	Operating Income (Loss)
Search	$ 52,695	$ (442)	$ (19,267)	$ (2,505)	$	$ 30,481
Match	65,280	(128)	(3,140)			62,012
ServiceMagic	19,450	(150)	(2,300)	(4,999)		12,001
Media & Other	(28,128)	(541)	(1,604)		(1,056)	(31,329)
Corporate	(47,835)	(47,426)				(95,261)
Total	$ 61,462	$ (48,687)	$ (26,311)	$ (7,504)	$ (1,056)	(22,096)
Other income, net						112,352
Earnings from continuing operations before income taxes						90,256
Income tax provision						(53,733)
Earnings from continuing operations						36,523
Loss from discontinued operations, net of tax						(3,472)
Net earnings						33,051
Net loss attributable to noncontrolling interests						1,058
Net earnings attributable to IAC shareholders						$ 34,109

The following table presents depreciation by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Depreciation:				
Search	$ 8,249	$ 7,826	$ 27,264	$ 24,551
Match	2,612	2,503	8,518	7,310
ServiceMagic	1,005	858	3,001	2,452
Media & Other	1,342	1,285	5,274	5,650
Corporate	2,156	2,817	6,551	8,417
Total	$ 15,364	$ 15,289	$ 50,608	$ 48,380

Geographic information about the United States and international territories is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Revenue:				

United States	$	353,832	$	293,056	$	1,014,767	$	848,932
All other countries		67,820		43,521		195,669		159,700
Total	$	421,652	$	336,577	$	1,210,436	$	1,008,632

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 SEGMENT INFORMATION (Continued)

	September 30, 2010		December 31, 2009	
	(In thousands)			
Long-lived assets (excluding goodwill and intangible assets):				
United States	$	281,151	$	296,543
All other countries		992		869
Total	$	282,143	$	297,412

NOTE 10 CONTINGENCIES

In the ordinary course of business, the Company is a party to various lawsuits. The Company establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where we believe an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that resolving claims against us, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of the Company, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. The Company also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. It is possible that an unfavorable outcome of one or more of these lawsuits or other contingencies could have a material impact on the liquidity, results of operations, or financial condition of the Company. See Note 3 for additional information related to income tax contingencies.

NOTE 11 SUPPLEMENTAL CASH FLOW INFORMATION

Non-Cash Transactions for the Nine Months Ended September 30, 2010

On March 10, 2010, Match and Meetic completed a transaction in which Match contributed its Latin American business ("Match Latam") and Meetic contributed its Latin American business ("Parperfeito") to a newly formed venture. These contributions, along with a $3.0 million payment from Match to Meetic, resulted in each party owning a 50% equity interest in the newly formed venture, which was valued at $72 million. Match controls the venture through its voting interests. Accordingly, this transaction was accounted for as an acquisition of Parperfeito and a decrease in ownership of Match Latam. No gain or loss was recognized on this transaction as the fair value of the consideration received by Match equaled the fair value of the assets exchanged.

Non-Cash Transactions for the Nine Months Ended September 30, 2009

On June 5, 2009, IAC completed the sale of Match Europe to Meetic. In exchange for Match Europe, IAC received a 27% stake in Meetic (approximately 6.1 million shares of Meetic common stock), valued at $154.8 million, plus a promissory note valued at $6.2 million. The promissory note was subsequently paid in the fourth quarter of 2009.

On January 31, 2009, IAC completed the sale of ReserveAmerica to The Active Network, Inc. ("Active"). In exchange for ReserveAmerica, IAC received approximately 3.5 million shares of Active convertible preferred stock, valued at $33.3 million. No gain or loss was recognized on the sale of

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

ReserveAmerica as the fair value of the Active convertible preferred stock received was equivalent to the carrying value of ReserveAmerica.

The Company recorded a $4.1 million reduction to the distribution related to the August 20, 2008 spin-off of HSN, Inc., Interval Leisure Group, Inc., Ticketmaster Entertainment, Inc. and Tree.com, Inc. (collectively, the "Spincos") into separate independent publicly traded companies (collectively, the "Spin-Off "). This reflects a reduction in the Company's income tax liability and a corresponding increase in the income tax liability of the Spincos as of the date of the Spin-Off. This reduced tax liability is primarily due to elections made by the Company pursuant to the tax sharing agreement executed in connection with the Spin-Off.

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

GENERAL

Management Overview

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

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

For a more detailed description of the Company's operating businesses, see the Company's annual report on Form 10-K for the year ended December 31, 2009.

Results of Operations for the three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009

Set forth below are the contributions made by our various segments and corporate operations to consolidated revenue, operating income (loss) and Operating Income Before Amortization (as defined in IAC's Principles of Financial Reporting) for the three and nine months ended September 30, 2010 and 2009 (dollars in thousands).

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	**Growth**	**2009***	**2010**	**Growth**	**2009***
Revenue:						
Search	$ 205,075	20%	$ 170,202	$ 601,230	20%	$ 502,758
Match	106,197	31%	80,992	292,433	13%	259,343
ServiceMagic	48,397	10%	43,902	140,128	19%	117,655
Media & Other	62,715	44%	43,497	178,206	33%	134,373
Inter-segment elimination	(732)	64%	(2,016)	(1,561)	72%	(5,497)
Total	$ 421,652	25%	$ 336,577	$ 1,210,436	20%	$ 1,008,632

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	**Growth**	**2009***	**2010**	**Growth**	**2009***
Operating Income (Loss):						
Search	$ 28,872	43%	$ 20,154	$ 91,546	200%	$ 30,481
Match	38,126	60%	23,873	77,318	25%	62,012
ServiceMagic	6,205	44%	4,318	14,349	20%	12,001
Media & Other	(4,583)	45%	(8,286)	(17,726)	43%	(31,329)
Corporate	(32,686)	1%	(32,938)	(102,300)	(7)%	(95,261)
Total	$ 35,934	405%	$ 7,121	$ 63,187	NM	$ (22,096)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	Growth	2009*	2010	Growth	2009*
Operating Income Before Amortization:						
Search	$ 29,268	10%	$ 26,559	$ 92,852	76%	$ 52,695
Match	39,354	47%	26,793	83,264		