

IAC/INTERACTIVECORP
Form 10-Q
May 07, 2009

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As filed with the Securities and Exchange Commission on May 7, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2009

or

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

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

IAC/INTERACTIVECORP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

555 West 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 No

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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(Do not check if a
smaller reporting
company)

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

As of April 24, 2009, the following shares of the Registrant's common stock were outstanding:

Common Stock	136,818,520
Class B Common Stock	12,799,999
Total outstanding Common Stock	149,618,519

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of April, 24, 2009 was \$1,783,542,784. 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 STATEMENTS

Item 1. Consolidated Financial Statements

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$ 1,792,795	\$ 1,744,994
Marketable securities	216,528	125,592
Accounts receivable, net of allowance of \$11,441 and \$11,396, respectively	91,762	98,402
Other current assets	223,036	217,798
Total current assets	2,324,121	2,186,786
Property and equipment, net	313,196	326,961
Goodwill	1,894,740	1,910,295
Intangible assets, net	390,896	386,756
Long-term investments	141,221	120,582
Other non-current assets	309,526	319,218
TOTAL ASSETS	\$ 5,373,700	\$ 5,250,598
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable, trade	\$ 54,238	\$ 52,833
Deferred revenue	59,518	50,886
Accrued expenses and other current liabilities	199,341	182,285
Total current liabilities	313,097	286,004
Long-term obligations	95,844	95,844
Income taxes payable	406,814	403,043
Other long-term liabilities	23,204	15,400
Redeemable noncontrolling interest	27,541	22,771
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Common stock \$.001 par value; authorized 1,600,000,000 shares; issued 222,181,178 and 210,217,183 shares, respectively, and outstanding 137,331,646 and 127,809,801 shares, respectively	222	210
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	11,267,536	11,112,014
Retained earnings	199,059	227,445
Accumulated other comprehensive (loss) income	(8,714)	2,180
Treasury stock 84,849,532 and 82,407,382 shares, respectively	(6,950,919)	(6,914,329)
Total shareholders' equity	4,507,200	4,427,536
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,373,700	\$ 5,250,598

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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 March 31,	
	2009	2008
	(In thousands, except per share data)	
Revenue	\$ 332,010	\$ 370,656
Costs and expenses:		
Cost of revenue (exclusive of depreciation shown separately below)	123,609	137,835
Selling and marketing expense	122,213	113,766
General and administrative expense	73,634	80,594
Product development expense	18,088	21,452
Depreciation	16,214	17,259
Amortization of non-cash marketing	2,305	2,796
Amortization of intangibles	8,015	8,062
Goodwill impairment	1,056	
Total costs and expenses	365,134	381,764
Operating loss	(33,124)	(11,108)
Other income (expense):		
Interest income	3,728	8,073
Interest expense	(1,464)	(11,978)
Equity in (losses) income of unconsolidated affiliates	(1,847)	5,779
Other income	146	9,817
Total other income, net	563	11,691
(Loss) earnings from continuing operations before income taxes	(32,561)	583
Income tax benefit (provision)	2,679	(4,036)
Loss from continuing operations	(29,882)	(3,453)
Income from discontinued operations, net of tax	1,238	55,939
Net (loss) earnings	(28,644)	52,486
Net loss attributable to noncontrolling interest	258	330
Net (loss) earnings attributable to IAC shareholders	\$ (28,386)	\$ 52,816
Per share information attributable to IAC shareholders:		
Basic loss per share from continuing operations	\$ (0.20)	\$ (0.02)
Diluted loss per share from continuing operations	\$ (0.20)	\$ (0.02)
Basic (loss) earnings per share	\$ (0.19)	\$ 0.38
Diluted (loss) earnings per share	\$ (0.19)	\$ 0.38
Non-cash compensation expense by function:		
Cost of revenue	\$ 824	\$ 817
Selling and marketing expense	954	945
General and administrative expense	15,444	15,692
Product development expense	1,358	1,432
Total non-cash compensation expense	\$ 18,580	\$ 18,886

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

IAC/INTERACTIVECORP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

	Total	Common Stock \$.001 Par Value		Class B Convertible Common Stock \$.001 Par Value		Additional Paid-in Capital	Retained Earnings	Accum. Other Comp. (Loss) Income	Treasury Stock
		\$	Shares	\$	Shares				
(In thousands)									
Balance as of December 31, 2008	\$4,427,536	\$210	210,217	\$16	16,157	\$11,112,014	\$227,445	\$2,180	\$(6,914,329)
Comprehensive loss:									
Net loss attributable to IAC shareholders for the three months ended March 31, 2009	(28,386)						(28,386)		
Foreign currency translation, net of tax benefit of \$1,978	(4,142)							(4,142)	
Unrealized losses on available-for-sale securities, net of tax benefit of \$3,806	(6,752)							(6,752)	
Comprehensive loss	(39,280)								
Non-cash compensation expense	18,706					18,706			
Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes	5,424		419			5,424			
Income tax provision related to the exercise of stock options, vesting of restricted stock units and other	(5,605)					(5,605)			
Issuance of common stock upon the exercise of warrants	151,264	12	11,545			151,252			
Purchase of treasury stock	(36,590)								(36,590)
Fair value of redeemable noncontrolling interest adjustment	(255)					(255)			
Equity award modification to settle a vested stock award for cash	(14,000)					(14,000)			
Balance as of March 31, 2009	\$4,507,200	\$222	222,181	\$16	16,157	\$11,267,536	\$199,059	\$(8,714)	\$(6,950,919)

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

IAC/INTERACTIVECORP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net (loss) earnings	\$ (28,644)	\$ 52,486
Less: income from discontinued operations, net of tax	(1,238)	(55,939)
Loss from continuing operations	(29,882)	(3,453)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Depreciation	16,214	17,259
Amortization of intangibles	8,015	8,062
Goodwill impairment	1,056	
Non-cash compensation expense	18,580	18,886
Amortization of non-cash marketing	2,305	2,796
Deferred income taxes	(3,937)	(5,181)
Equity in losses (income) of unconsolidated affiliates	1,847	(5,779)
Net increase in the fair value of the derivatives created in the HSE sale and the Expedia spin-off		(6,586)
Changes in current assets and liabilities:		
Accounts receivable	1,778	13,364
Other current assets	1,633	(9,261)
Accounts payable and other current liabilities	19,122	(8,859)
Income taxes payable	2,518	9,822
Deferred revenue	6,751	3,579
Other, net	2,699	1,951
Net cash provided by operating activities attributable to continuing operations	48,699	36,600
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(11,537)	(4,717)
Capital expenditures	(8,580)	(15,848)
Proceeds from sales and maturities of marketable securities	26,386	181,035
Purchases of marketable securities	(118,033)	(35,971)
Purchases of long-term investments	(1,211)	(48,391)
Other, net	(8,402)	347
Net cash (used in) provided by investing activities attributable to continuing operations	(121,377)	76,455
Cash flows from financing activities attributable to continuing operations:		
Purchase of treasury stock	(29,176)	(145,590)
Issuance of common stock, net of withholding taxes	148,778	(6,016)
Excess tax benefits from stock-based awards	86	195
Other, net	1,054	262
Net cash provided by (used in) financing activities attributable to continuing operations	120,742	(151,149)

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Total cash provided by (used in) continuing operations	48,064	(38,094)
Net cash (used in) provided by operating activities attributable to discontinued operations	(527)	112,966
Net cash used in investing activities attributable to discontinued operations		(430,250)
Net cash used in financing activities attributable to discontinued operations		(8,582)
Total cash used in discontinued operations	(527)	(325,866)
Effect of exchange rate changes on cash and cash equivalents	264	12,708
Net increase (decrease) in cash and cash equivalents	47,801	(351,252)
Cash and cash equivalents at beginning of period	1,744,994	1,585,302
Cash and cash equivalents at end of period	\$ 1,792,795	\$ 1,234,050

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 operates more than 35 leading and diversified Internet businesses across 40 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 Media & Advertising segment; its Match and ServiceMagic segments; the businesses comprising its Emerging Businesses segment; and certain 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 voting controlled subsidiaries or affiliates of the Company. The Company has no variable interest entities. Intercompany transactions and accounts have been eliminated. Investments in entities in which the Company has the ability to exercise significant influence, 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 for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. 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, 2008, as amended.

Use of Estimates

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

Significant estimates underlying the accompanying consolidated financial statements include: recovery of marketable securities; the allowance for doubtful accounts and other revenue related allowances; recoverability of long-lived assets, including definite-lived intangible assets; recovery of goodwill and indefinite-lived intangible assets; recovery of derivative assets; income taxes payable and deferred income taxes, including related reserves and valuation allowances; and assumptions related to the determination of stock-based compensation.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Goodwill and Indefinite-Lived Intangible Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill acquired in business combinations is assigned to the reporting units that are expected to benefit from the combination as of the acquisition date. The Company tests goodwill and indefinite-lived intangible assets for impairment annually as of October 1, or more frequently if events or changes in circumstances indicate that the assets might be impaired. If the carrying amount of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the excess is recorded. If the carrying amount of an indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss equal to the excess is recorded.

The Company's reporting units are consistent with its determination of its operating segments. Goodwill is tested for impairment at the reporting unit level. The Company's operating segments, reporting units and reportable segments are as follows:

Operating Segment and Reporting Unit	Reportable Segment
IAC Search & Media	Media & Advertising
Citysearch	Media & Advertising
Match	Match
ServiceMagic	ServiceMagic
Shoebuy	Emerging Businesses
InstantAction.com	Emerging Businesses
Connected Ventures	Emerging Businesses

Certain reporting units are currently operating in dynamic industry segments. These include IAC Search & Media and InstantAction.com. If actual operating results of these businesses vary significantly from anticipated results, the future impairments of goodwill and/or other intangible assets could occur. To illustrate the magnitude of potential impairment charges relative to future changes in estimated fair value, had the estimated fair value of each of these reporting units been hypothetically lower by 10% as of October 1, 2008, the aggregate book value of goodwill would have exceeded fair value by approximately \$140 million at IAC Search & Media and \$4 million at InstantAction.com. Had the estimated fair values of each of these reporting units been hypothetically lower by 20% as of October 1, 2008, the book value of goodwill would have exceeded fair value by approximately \$330 million at IAC Search & Media and \$8 million at InstantAction.com.

Reclassifications

Effective January 1, 2009, the Company adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 changed the accounting for and reporting of minority interest (also referred to as noncontrolling interest) in the Company's consolidated financial statements. Upon adoption, such noncontrolling interests are reported on the consolidated balance sheet within shareholders' equity, separately from the Company's equity. However, in accordance with FASB Emerging Issues Task Force Topic No. D-98, "Classification and Measurement of Redeemable Securities," securities that are redeemable at the option of the holder and not solely within the control of the issuer, must be classified outside of shareholders' equity. Since the Company's noncontrolling interests are exercisable

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

outside the control of IAC these interests are included in the mezzanine section of the accompanying consolidated balance sheet, outside of shareholders' equity. Upon adoption of SFAS No. 160, certain prior period amounts were reclassified to conform to the current period financial statement presentation.

The accompanying unaudited consolidated statements of operations and cash flows for the three months ended March 31, 2008 have been reclassified to present Entertainment Publications, Inc. ("EPI"), which previously comprised IAC's former Entertainment segment, and HSN, Inc. ("HSNi"), Interval Leisure Group, Inc. ("ILG"), Ticketmaster Entertainment, Inc. ("Ticketmaster") and Tree.com, Inc. ("Tree.com"), which were spun-off into separate independent public companies on August 20, 2008 (the "Spin-Off"), as discontinued operations.

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

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS

Property and equipment, net

Property and equipment, net is comprised of (in thousands):

	March 31, 2009	December 31, 2008
Buildings and leasehold improvements	\$ 227,290	\$ 229,474
Computer equipment and capitalized software	194,765	222,131
Furniture and other equipment	41,143	41,767
Projects in progress	14,761	18,482
Land	5,117	5,117
	483,076	516,971
Less: accumulated depreciation and amortization	(169,880)	(190,010)
Property and equipment, net	\$ 313,196	\$ 326,961

Accumulated other comprehensive (loss) income

Accumulated other comprehensive (loss) income, net of tax, is comprised of (in thousands):

	March 31, 2009	December 31, 2008
Foreign currency translation, net of tax	\$ 1,204	\$ 5,346
Unrealized losses on available-for-sale securities, net of tax	(9,918)	(3,166)
Accumulated other comprehensive (loss) income, net of tax	\$ (8,714)	\$ 2,180

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 CONSOLIDATED FINANCIAL STATEMENT DETAILS (Continued)

Revenue

Revenue is comprised of (in thousands):

	Three Months Ended March 31,	
	2009	2008
Service revenue	\$ 306,742	\$ 346,109
Product revenue	25,268	24,547
Revenue	\$ 332,010	\$ 370,656

Comprehensive (loss) income

Comprehensive (loss) income is comprised of (in thousands):

	Three Months Ended March 31,	
	2009	2008
Net (loss) earnings attributable to IAC shareholders	\$(28,386)	\$ 52,816
Foreign currency translation, net of tax	(4,142)	21,418
Unrealized losses on available-for-sale securities, net of tax	(6,752)	(16,994)
Other comprehensive (loss) income	(10,894)	4,424
Comprehensive (loss) income	\$(39,280)	\$ 57,240

NOTE 3 INCOME TAXES

The Company calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28 and FASB Interpretation No. 18. 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 operating income (or loss) for the year, projections of the proportion of income (or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of recovering 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 estimated 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.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (Continued)

For the three months ended March 31, 2009, the Company recorded an income tax benefit for continuing operations of \$2.7 million on a pre-tax loss of \$32.6 million which represents an effective tax rate of 8%. For the three months ended March 31, 2008, the Company recorded an income tax provision for continuing operations of \$4.0 million on pre-tax income of \$0.6 million. The tax rate for the three months ended March 31, 2009 is lower than the federal statutory rate of 35% due principally to an increase in the valuation allowance on deferred tax assets related to losses from equity investments, non-deductible transaction costs related to the pending sale of Match Europe to Meetic, interest on tax contingencies and state taxes, partially offset by foreign income taxed at lower rates. The tax rate for the three months ended March 31, 2008 is higher than the federal statutory rate of 35% due principally to non-deductible costs related to the Spin-Off, interest on tax contingencies, a write-off of a deferred tax asset related to executive compensation and state taxes, partially offset by foreign income taxed at lower rates.

At March 31, 2009 and December 31, 2008, unrecognized tax benefits, including interest, were \$422.9 million and \$422.3 million, respectively. Total unrecognized tax benefits as of March 31, 2009 include \$15.9 million that have been netted against the related deferred tax assets. Of the remaining balance, \$406.8 million and \$0.2 million are reflected in "non-current income taxes payable" and "accrued expenses and other current liabilities", respectively. Unrecognized tax benefits for the three months ended March 31, 2009 increased by \$0.6 million due principally to interest, partially offset by the effective settlement of certain prior year tax positions with the Internal Revenue Service ("IRS") relating to the reversal of deductible temporary differences. Included in unrecognized tax benefits at March 31, 2009 is \$125.7 million for tax positions 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 March 31, 2009 are subsequently recognized, \$67.4 million and \$179.9 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 \$55.1 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 the income tax benefit for continuing operations for the three months ended March 31, 2009 is a \$2.6 million expense, net of related deferred taxes of \$1.7 million, for interest on unrecognized tax benefits. At March 31, 2009 and December 31, 2008, the Company has accrued \$53.5 million and \$49.7 million, respectively, for the payment of interest. There are no material accruals 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 deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by the Company are recorded in the period they become known.

The IRS is currently examining the Company's tax returns for the years ended December 31, 2001 through 2003. The statute of limitations for these years has been extended to December 31, 2009. Various state, local and foreign jurisdictions are currently under examination, the most significant of

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (Continued)

which are California, Florida, New York and New York City, for various tax years beginning with December 31, 2001. These examinations are expected to be completed by 2010. In early 2009, the IRS commenced an audit of the Company's tax returns for the years ended December 31, 2004 through 2006. The statute of limitations for these years has been extended and this examination is expected to be completed in 2011. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by \$13.0 million within twelve months of the current reporting date primarily due to the reversal of deductible temporary differences which will primarily result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits, while potentially significant, cannot be made.

NOTE 4 GOODWILL AND INTANGIBLE ASSETS

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

	March 31, 2009	December 31, 2008
Goodwill	\$ 1,894,740	\$ 1,910,295
Intangible assets with indefinite lives	337,313	337,313
Intangible assets with definite lives, net	53,583	49,443
 Total goodwill and intangible assets, net	 \$ 2,285,636	 \$ 2,297,051

The following table presents the balance of goodwill by segment, including the changes in the carrying amount of goodwill, for the three months ended March 31, 2009 (in thousands):

	Balance as of January 1, 2009	Additions	(Deductions)	Impairment	Foreign Exchange Translation	Balance as of March 31, 2009
Media & Advertising	\$ 1,461,097	\$ 8,028	\$ (1,407)	\$	\$ 3	\$ 1,467,721
Match	225,558				760	226,318
ServiceMagic	107,369	5,053	(1,802)		281	110,901
Emerging Businesses	116,271		(25,109)	(1,056)	(306)	89,800
 Total	 \$ 1,910,295	 \$ 13,081	 \$ (28,318)	 \$ (1,056)	 \$ 738	 \$ 1,894,740

Additions relate to acquisitions. Deductions principally relate to the sale of ReserveAmerica on January 31, 2009.

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 GOODWILL AND INTANGIBLE ASSETS (Continued)

Intangible assets with indefinite lives relate to trade names and trademarks acquired in various acquisitions. At March 31, 2009, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted-Average Amortization Life (Years)
Technology	\$ 115,190	\$ (84,560)	\$ 30,630	4.9
Supplier agreements	23,595	(11,290)	12,305	6.0
Distribution agreements	4,600	(4,258)	342	4.0
Customer lists	2,559	(2,320)	239	1.6
Other	22,676	(12,609)	10,067	3.4
Total	\$ 168,620	\$ (115,037)	\$ 53,583	

At December 31, 2008, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted-Average Amortization Life (Years)
Technology	\$ 113,599	\$ (78,617)	\$ 34,982	4.9
Supplier agreements	22,370	(10,302)	12,068	6.0
Distribution agreements	4,600	(3,969)	631	4.0
Customer lists	2,639	(2,472)	167	1.8
Other	17,846	(16,251)	1,595	2.8
Total	\$ 161,054	\$ (111,611)	\$ 49,443	

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2008 balances, such amortization for the next five years and thereafter is estimated to be as follows (in thousands):

Years Ending December 31,	
2009	\$ 27,821
2010	14,942
2011	2,500
2012	2,267
2013	1,363
2014	550
	\$ 49,443

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 EARNINGS PER SHARE

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

	Three Months Ended March 31,			
	2009		2008	
	Basic	Diluted	Basic	Diluted
(In thousands, except per share data)				
Numerator:				
Loss from continuing operations	\$ (29,882)	\$ (29,882)	\$ (3,453)	\$ (3,453)
Net loss attributable to noncontrolling interest	258	258	330	330
Loss from continuing operations attributable to IAC shareholders (a)	(29,624)	(29,624)	(3,123)	(3,123)
Income from discontinued operations, net of tax	1,238	1,238	55,939	55,939
Net (loss) earnings attributable to IAC shareholders	\$ (28,386)	\$ (28,386)	\$ 52,816	\$ 52,816
Denominator:				
Weighted average basic shares outstanding	147,776	147,776	139,383	139,383
Dilutive securities including stock options, warrants and RSUs				
Denominator for earnings per share weighted average shares (b)	147,776	147,776	139,383	139,383
(Loss) earnings per share attributable to IAC shareholders:				
Loss per share from continuing operations	\$ (0.20)	\$ (0.20)	\$ (0.02)	\$ (0.02)
Discontinued operations, net of tax	0.01	0.01	0.40	0.40
(Loss) earnings per share	\$ (0.19)	\$ (0.19)	\$ 0.38	\$ 0.38

- (a) For the three months ended March 31, 2008, approximately 0.2 million weighted average common shares related to the assumed conversion of the Ask Zero Coupon Convertible Subordinated Notes due June 1, 2008 (the "Convertible Notes") were excluded from the calculation of diluted earnings per share because the effect would be anti-dilutive. During the second quarter of 2008 all outstanding Convertible Notes were fully converted.
- (b) Weighted average common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options and warrants, vesting of restricted stock units and conversion of the Convertible Notes if the effect is dilutive. Because the Company had a loss from continuing operations for both the three months ended March 31, 2009 and 2008, no potentially dilutive securities were included in the denominator for computing diluted earnings per share, since their impact would be anti-dilutive. Accordingly, the weighted average basic shares outstanding were used to compute all earnings per share amounts. For the three months ended March 31, 2009 and 2008, approximately 39.2 million and 53.4 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 6 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 products or services offered or the target market. Entities included in discontinued operations, as described in Note 8, are excluded from the schedules below. Operating segments are combined for reporting purposes if they have similar economic characteristics and meet the aggregation criteria of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Revenue:		
Media & Advertising	\$ 167,620	\$ 215,538
Match	90,060	90,536
ServiceMagic	31,353	28,948
Emerging Businesses	44,022	43,763
Inter-segment elimination	(1,045)	(8,129)
Total	\$ 332,010	\$ 370,656

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Operating Income (Loss):		
Media & Advertising	\$ 1,088	\$ 31,299
Match	9,742	7,136
ServiceMagic	2,003	5,610
Emerging Businesses	(12,700)	(9,308)
Corporate	(33,257)	(45,845)
Total	\$ (33,124)	\$ (11,108)

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 consolidated operating results from IAC's segments, taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to IAC's statement of operations of certain expenses, including non-cash compensation, non-cash marketing, 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, financial statements

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 SEGMENT INFORMATION (Continued)

prepared in accordance with generally accepted accounting principles, and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measure.

	Three Months Ended March 31,	
	2009	2008
(In thousands)		
Operating Income Before Amortization:		
Media & Advertising	\$ 10,134	\$ 37,529
Match	9,941	10,139
ServiceMagic	2,801	6,149
Emerging Businesses	(11,056)	(7,825)
Corporate	(14,988)	(27,356)
Total	\$ (3,168)	\$ 18,636

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

	Three Months Ended March 31, 2009					
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Non-Cash Marketing	Amortization of Intangibles	Goodwill Impairment	Operating Income (Loss)
Media & Advertising	\$ 10,134	\$ (147)	\$ (2,305)	\$ (6,594)	\$	\$ 1,088
Match	9,941	(77)		(122)		9,742
ServiceMagic	2,801	(150)		(648)		2,003
Emerging Businesses	(11,056)	63		(651)	(1,056)	(12,700)
Corporate	(14,988)	(18,269)				(33,257)
Total	\$ (3,168)	\$ (18,580)	\$ (2,305)	\$ (8,015)	\$ (1,056)	(33,124)
Other income, net						563
Loss from continuing operations before income taxes						(32,561)
Income tax benefit						2,679
Loss from continuing operations						(29,882)
Income from discontinued operations, net of tax						1,238
Net loss						(28,644)
Net loss attributable to noncontrolling interest						258
Net loss attributable to IAC shareholders						\$ (28,386)

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 SEGMENT INFORMATION (Continued)

	Three Months Ended March 31, 2008				
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Non-Cash Marketing	Amortization of Intangibles	Operating Income (Loss)
Media & Advertising	\$ 37,529	\$	\$	\$ (6,230)	\$ 31,299
Match	10,139		(2,796)	(207)	7,136
ServiceMagic	6,149	(156)		(383)	5,610
Emerging Businesses	(7,825)	(241)		(1,242)	(9,308)
Corporate	(27,356)	(18,489)			(45,845)
Total	\$ 18,636	\$ (18,886)	\$ (2,796)	\$ (8,062)	(11,108)
Other income, net					11,691
Earnings from continuing operations before income taxes					583
Income tax provision					(4,036)
Loss from continuing operations					(3,453)
Income from discontinued operations, net of tax					55,939
Net earnings					52,486
Net loss attributable to noncontrolling interest					330
Net earnings attributable to IAC shareholders					\$ 52,816

The following table presents depreciation by segment:

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Depreciation:		
Media & Advertising	\$ 8,537	\$ 9,508
Match	2,408	2,075
ServiceMagic	801	794
Emerging Businesses	1,709	1,628
Corporate	2,759	3,254
Total	\$ 16,214	\$ 17,259

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

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Revenue:		

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United States	\$ 271,937	\$ 298,401
All other countries	60,073	72,255
Total	\$ 332,010	\$ 370,656

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 SEGMENT INFORMATION (Continued)

	March 31, 2009	December 31, 2008
	(In thousands)	
Long-lived assets (excluding goodwill and intangible assets):		
United States	\$ 311,146	\$ 324,734
All other countries	2,050	2,227
Total	\$ 313,196	\$ 326,961

NOTE 7 FAIR VALUE MEASUREMENTS

In accordance with SFAS No. 157, "Fair Value Measurements," the Company categorizes its assets and liabilities measured at fair value into a fair value hierarchy that prioritizes the assumptions used in pricing the asset or liability into the following three levels:

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

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.

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.

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

	March 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)			
Marketable securities	\$ 215,484	\$ 1,044	\$	\$ 216,528
Long-term investments	27,875		10,020	37,895
Derivative asset created in the HSE sale			53,582	53,582
Total	\$ 243,359	\$ 1,044	\$ 63,602	\$ 308,005

IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2008			Total Fair Value Measurements
	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)			
Marketable securities	\$ 124,741	\$ 851	\$	\$ 125,592
Long-term investments	38,760		10,725	49,485
Derivative asset created in the HSE sale				