IAC/INTERACTIVECORP
Form 10-K
March 01, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2006

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.)
152 West 57th Street, New York, New York (Address of Registrant's principal executive offices)	**10019** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $.001 par value
Warrants to Acquire One-half of a Share of Common Stock
Warrants to Acquire 0.969375 of a Share of Common Stock

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No ý

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ý Accelerated filer o Non-accelerated filer 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 February 2, 2007, the following shares of the Registrant's Common Stock were outstanding:

Common Stock, including 231,204 shares of restricted stock	260,127,856
Class B Common Stock	25,599,998
Total	285,727,854

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of June 30, 2006 was $6,037,871,838. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant are assumed to be affiliates of the Registrant.

Documents Incorporated By Reference:

Portions of the Registrant's proxy statement for its 2007 Annual Meeting of Stockholders are incorporated by reference into Part III herein.

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PART I

Item 1. ***Business***

OVERVIEW

Who We Are

IAC operates leading and diversified businesses in sectors being transformed by the internet, online and offline... our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. Our operating businesses provide products and services through a diversified portfolio of specialized and global brands and are organized into the following sectors:

- Retailing, which includes the U.S. and International reporting segments;
- Services, which includes the Ticketing, Lending, Real Estate and Home Services reporting segments;
- Media & Advertising; and
- Membership & Subscriptions, which includes the Vacations, Personals and Discounts reporting segments.

IAC businesses enable billions of dollars of consumer-direct transactions and advertising for products and services via interactive distribution channels. All references to "IAC," the "Company," "we," "our" or "us" in this report are to IAC/InterActiveCorp.

For information regarding the results of operations of these sectors and segments, as well as their respective contributions to IAC's consolidated results of operations, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8 Consolidated Financial Statements and Supplementary Data."

History

Since its inception, IAC has transformed itself from a hybrid media/electronic retailing company into an interactive commerce company. IAC was incorporated in July 1986 in Delaware under the name Silver King Broadcasting Company, Inc., as a subsidiary of Home Shopping Network, Inc. On December 28, 1992, Home Shopping Network distributed the capital stock of Silver King to its stockholders. In December 1996, the Company completed mergers with Savoy Pictures Entertainment, Inc. and Home Shopping Network, with Savoy and Home Shopping Network becoming subsidiaries of Silver King. In connection with these mergers, the Company changed its name to HSN, Inc.

The Company acquired a controlling interest in Ticketmaster Group, Inc. in 1997 (and the remaining interest in 1998). In 1998, upon the purchase of USA Networks and Studios USA from Universal Studios, Inc., the Company was renamed USA Networks, Inc. From 1999 through 2001, the Company acquired Hotel Reservations Network (later renamed Hotels.com), Match.com and other smaller e-commerce companies. In 2001, the Company sold USA Broadcasting to Univision Communications, Inc.

In February 2002, the Company acquired a controlling stake in Expedia.com. In May 2002, after contributing its entertainment assets to Vivendi Universal Entertainment LLLP, or VUE, a joint venture then controlled by Vivendi, the Company changed its name to USA Interactive. In September 2002, the Company acquired Interval International. In 2003, the Company acquired the minority interests in its former public subsidiaries, Expedia.com, Hotels.com and Ticketmaster, and acquired a number of other companies, including Entertainment Publications, Inc., LendingTree and

Hotwire. The Company changed its name to InterActiveCorp in June 2003 and to IAC/InterActiveCorp in July 2004.

On August 9, 2005, IAC completed the separation of its travel and travel-related businesses and investments into an independent public company. In this report, we refer to this transaction as the "Spin-Off" and to the company that holds the travel and travel-related businesses formerly held by IAC as "Expedia." Immediately prior to the Spin-Off, IAC effected a one-for-two reverse stock split. IAC also completed the following transactions in 2005: the acquisition of Ask Jeeves, Inc., now known as IAC Search & Media (July 2005), a transaction with NBC Universal in which IAC sold its common and preferred interests in VUE (June 2005) and the acquisition of Cornerstone Brands (April 2005). In early 2006, IAC launched IAC Programming within its Emerging Businesses group to buy and build branded online content properties, and in November 2006, IAC sold PRC, LLC, its Teleservices subsidiary.

For additional information concerning some of these transactions, as well as certain other transactions, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8 Consolidated Financial Statements and Supplementary Data Note 3."

EQUITY OWNERSHIP AND VOTING CONTROL

As of February 2, 2007, Liberty Media Corporation, through companies owned by Liberty and companies owned jointly by Liberty and Barry Diller, Chairman and CEO of IAC, owned approximately 18.9% of IAC's outstanding common stock and 100% of IAC's outstanding Class B common stock. Assuming conversion of all of the outstanding shares of Class B common stock to common stock, as of February 2, 2007, Liberty would have owned approximately 26.2% of IAC's outstanding Common Stock.

Subject to the terms of an amended and restated stockholders agreement, dated as of August 9, 2005, between Liberty and Mr. Diller, Mr. Diller has an irrevocable proxy to vote shares of IAC common stock and IAC Class B common stock held by Liberty. Accordingly, Mr. Diller is effectively able to control the outcome of all matters submitted to a vote or for the consent of IAC's stockholders (other than with respect to the election by the holders of IAC common stock of 25% of the members of IAC's Board of Directors and matters as to which Delaware law requires a separate class vote). In addition, pursuant to an amended and restated governance agreement, dated as of August 9, 2005, among IAC, Liberty and Mr. Diller, each of Mr. Diller and Liberty generally has the right to consent to limited matters in the event that IAC's ratio of total debt to EBITDA (as defined in the amended and restated governance agreement) equals or exceeds four to one over a continuous 12-month period.

As of February 2, 2007, Mr. Diller (through companies owned jointly by Liberty and Mr. Diller, his own holdings and holdings of Liberty, over which Mr. Diller generally has voting control pursuant to the amended and restated stockholders agreement) controlled approximately 59.1% of the outstanding total voting power of IAC. As of February 2, 2007, there were 260,127,856 shares of IAC common stock and 25,599,998 shares of IAC Class B common stock outstanding. Total voting power is based on one vote for each share of IAC common stock and ten votes for each share of Class B common stock.

DESCRIPTION OF IAC BUSINESSES

Retailing

Retailing U.S.

Overview. Retailing U.S. markets and sells a wide range of third party and private label merchandise directly to consumers through (i) television home shopping programming broadcast on the HSN television network, (ii) catalogs, which consist primarily of the Cornerstone Brands portfolio of leading print catalogs and (iii) websites, which consist primarily of HSN.com, Shoebuy.com and branded websites operated by Cornerstone Brands. HSN operates the HSN television network and HSN.com, and Cornerstone Brands operates its portfolio of leading print catalogs and related websites, as well as a limited number of retail outlets. IAC acquired Cornerstone Brands in April 2005 and Shoebuy.com, Inc., a leading internet retailer of footwear and related apparel and accessories, in January 2006.

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

Cornerstone Brands merchandise consists primarily of home furnishings, products and accessories, and casual and leisure apparel, with the nature and mix of products varying by brand. In the case of Frontgate, Ballard Designs, Garnet Hill and The Territory Ahead, featured products include exclusive, third party-branded products, as well as proprietary products that carry Cornerstone Brand labels, and in the case of Smith+Noble and TravelSmith, featured products consist exclusively of proprietary products that carry Cornerstone Brand labels.

Frontgate features premium, high quality bed, bath and kitchen accessories, as well as outdoor, patio, garden and pool furnishings and accessories. Ballard Designs features European-inspired bed, bath, dining and office furnishings and accessories, as well as rugs, shelving and architectural accents for the home. Garnet Hill offers bed and bath furnishings and soft goods, as well as apparel and accessories for women and children, and Smith+Noble offers custom home furnishings and window treatments. The Territory Ahead offers casual apparel for men and women and TravelSmith offers travel wear for men and women and related accessories. Shoebuy.com features one of the largest selections of shoes for women, men and children available online, offering a wide range of shoe brands and styles in a broad array of materials, colors, sizes and widths, together with related apparel and accessories.

HSN and Cornerstone Brands purchase merchandise made to their respective specifications, as well as merchandise from name brand vendors and other third party lines, typically under certain exclusive rights, and, in the case of HSN, some overstock inventories from wholesalers. The mix and source of merchandise generally depends upon a variety of factors, including price and availability. While HSN and Cornerstone Brands generally do not enter into long-term supply arrangements with any of their respective vendors, given that there are generally a variety of sources of supply available for most merchandise, some Cornerstone Brands businesses have entered into long-term arrangements with certain vendors in the case of custom merchandise. Shoebuy.com generally acts as an agent in connection with the purchase of shoes, related apparel and accessories through its various websites, passing purchases made by customers through its various websites to the relevant vendors for fulfillment and shipping.

HSN and Cornerstone Brands provide customers with a number of convenient options in connection with the purchase, payment and shipping of merchandise, which vary by product. In the case of HSN, these options include the AutoShip program, pursuant to which customers can arrange to have purchases automatically sent and billed to them on a regularly scheduled basis, and the Flexpay option, which allows customers to pay for merchandise in 2-6 interest free payments. In the case of certain Cornerstone Brands businesses, these options include the Bill Me Later program for merchandise with a value of $250 or more, pursuant to which customers are not required to make (but may make) any payments for the 90-day period following the relevant purchase. Customers who do not pay for merchandise in full following the expiration of the 90-day period are billed finance charges from the date of purchase. Standard and express shipping options are available and customers may generally return most merchandise for a full refund or exchange, subject in some cases to restocking fees and exceptions for custom merchandise in the case of Cornerstone Brands merchandise. Shoebuy.com provides customers with free shipping in connection with purchases and returns, as well as offers its customers certain price and other guarantees.

Television Programming

Overview. The HSN television network broadcasts live, customer interactive television home shopping programming 24 hours a day, seven days a week. This programming is intended to promote sales and customer loyalty through a combination of product quality, price and value, coupled with product information and entertainment. Programming on the HSN television network is divided into separately televised segments, each of which has a host who presents and conveys information regarding the featured product, sometimes with the assistance of a representative from the product vendor. The HSN television network also broadcasts nationwide infomercial campaigns for select products, which it produces and manages, on pay television networks on a limited basis from time to time.

Reach. HSN produces live programming for the HSN television network in its studios in St. Petersburg, Florida. HSN distributes its programming by means of satellite uplink facilities, which it owns and operates, to a satellite transponder leased by HSN on a full-time basis through May 2019.

As of December 31, 2005 and 2006, the HSN television network reached approximately 89.0 million (as of the end of both years) of the approximately 110.2 million and 111.3 million homes in the United States with a television set, respectively. Television households reached by the HSN television network as of December 31, 2005 and 2006 primarily include approximately 64.1 million and 62.4 million households capable of receiving cable and/or broadcast transmissions and approximately 24.7 million and 26.4 million direct broadcast satellite system, or DBS, households, respectively.

Pay Television Distribution. HSN has entered into multi-year distribution and affiliation agreements with cable television and DBS operators, collectively referred to in this report as pay television operators, in the United States to carry the HSN television network, as well as to promote the network by carrying related commercials and distributing related marketing materials to their respective subscriber bases. In exchange for this carriage and related promotional and other efforts, HSN generally pays these pay television operators a commision, based on a percentage of the net merchandise sales to their subscriber bases. In some cases, pay television operators receive additional compensation in the form of advertising insertion time on the HSN television network, commission guarantees and/or distribution payments in exchange for their commitments to deliver subscribers. Distribution and affiliation agreements with major pay television operators expire from time to time. Agreements with certain major pay television operators expired in 2005 and 2006, which agreements are currently in the process of being renewed. See "Item 1A Risk Factors Third Party Relationships Retailing."

Broadcast Television Distribution. As of December 31, 2006, HSN also had affiliation agreements with 68 low power television stations for carriage of the HSN television network with terms ranging from several weeks to several years. In exchange for this carriage, HSN pays the broadcast television stations hourly or monthly fixed rates. IAC owns 27 of the 68 low power television stations that carry the HSN network on a full-time basis.

Catalogs. The Catalogs business consists primarily of the Cornerstone Brands portfolio of leading print catalogs. The Catalogs business also includes three other catalogs formerly operated and managed by HSN, which feature thousands of home, yard and automotive products. For a description of the merchandise featured in Cornerstone Brands catalogs, see " Merchandise." Cornerstone Brands catalog presentations generally incorporate on-site photography and real-life settings, coupled with related editorial content describing the merchandise and depicting situations in which it may be used. Cornerstone Brands catalogs are designed and produced in house, which enables each individual brand to control the production process and reduces the amount of lead time required to produce a given catalog. Cornerstone Brands negotiates contracts for paper and printing services for all of its brands, which generally reduces catalog-related costs for each individual brand.

New editions of full-color Cornerstone Brands and other catalogs are mailed to customers several (generally six to ten) times each year, with a total annual circulation in 2006 of approximately 426 million catalogs. The timing and frequency of catalog circulation varies by brand and depends upon a number of factors, including the timing of the introduction of new merchandise, marketing campaigns and promotions and inventory levels, among other factors.

Online Distribution. HSN operates *HSN.com*, a transactional e-commerce site that serves as another storefront for merchandise featured on the HSN television network, as well as a significant amount of additional inventory. Cornerstone Brands operates *Frontgate.com*, *BallardDesigns.com*, *GarnetHill.com*, *SmithandNoble.com*, *TheTerritoryAhead.com* and *TravelSmith.com*, which serve as other storefronts for merchandise featured in the corresponding print catalogs, and certain other websites. Shoebuy.com operates *Shoebuy.com*, *Bagsbuy.com* and *Outletbuy.com*, which collectively offer footwear and related apparel and accessories.

HSN.com and the Cornerstone Brands' websites provide consumers with additional content to support and enhance HSN television programming or the corresponding print catalog, as applicable. For example, HSN.com provides users with an online program guide, a 24-hour product review through which they can find and view products previously featured on the HSN television network, live streaming video of the HSN television network and additional information about HSN show hosts and guest personalities. Additional content provided by Cornerstone Brands websites, which differs across the various websites, includes decorating tips and measuring and installation information, a feature that allows consumers to browse the corresponding catalog on line and online design centers, gift registries and travel centers.

Consumers can also track the status of their online orders through these websites, confirm information regarding shipping and, in some cases, confirm the availability of inventory and establish and manage personal accounts. Consumers may communicate directly with customer service via e-mail or by telephone, with call center representatives available seven days a week. In 2006, websites owned and operated by Retailing U.S. generated approximately 26.9% of U.S. demand, excluding liquidations and services.

Competition. The HSN television network, catalogs and websites, all of which comprise Retailing U.S., operate in a highly competitive environment. These businesses are in direct competition for consumers with traditional offline and online retailers, ranging from large department stores to specialty shops, electronic retailers, direct marketing retailers, such as mail order and catalog companies, and discount retailers. The HSN television network competes with, and expects to face increasing competition from, other companies that market merchandise by means of live television. In addition, the HSN television network competes for access to customers and audience share with other conventional forms of entertainment and content. The price and availability of programming for pay television systems affect the availability of distribution for HSN television programming and the compensation that must be paid to pay television operators for related carriage and competition for channel capacity and placement continues to increase. See "Item 1A Risk Factors Adverse Events and Trends Retailing." Principal competitive factors for the businesses that comprise Retailing U.S. include selection of goods, customer service, reliability of fulfillment and delivery services, brand recognition, convenience and accessibility and price and, in the case of websites, quality of search tools and system reliability.

Retailing International

Overview. As of December 31, 2006, Retailing International consisted of HSE-Germany, which operates a German-language television home shopping business that is broadcast 24 hours a day, seven days a week, in Germany, Austria and Switzerland, as well as minority interests in home shopping businesses in Japan and China.

HSE-Germany. As of December 31, 2006, HSE-Germany had approximately 19.1 million cable and 15.6 million satellite subscribers in Germany, approximately 910,000 cable and 1.6 million satellite subscribers in Austria and approximately 1.4 million cable and 300,000 satellite subscribers in Switzerland. In addition to its television home shopping business, HSE-Germany generates sales on its website.

HSE-Germany enters into affiliation agreements with local cable operators in each of Germany, Austria and Switzerland, as well as with one principal DBS operator for carriage in all of these countries, which agreements expire from time to time. HSE-Germany must also negotiate with German state media authorities for broadcast rights from time to time.

Other. Retailing International has a 30% minority stake in Jupiter Shop Channel Co. Ltd., a venture based in Tokyo, Japan, which broadcasts televised shopping 24 hours a day, with the substantial majority of this time devoted to live broadcasts.

Competition. HSE-Germany and the Japanese and Chinese television shopping businesses in which IAC holds minority interests compete with traditional retailers, direct marketing and other electronic retailers, some of which offer 24-hour electronic retailing programming and/or use infomercials and a small amount of live programming.

Services

Ticketing

Overview. Ticketing consists primarily of Ticketmaster, a leading provider of online and offline ticketing services. Ticketmaster and its affiliated brands and businesses provide online and offline ticketing services through Ticketmaster-owned and affiliated websites, call centers and independent retail outlets, serving many of the foremost venues, entertainment facilities, promoters and professional sports franchises in the United States and abroad, including Australia, Canada, Denmark, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, Turkey and the United Kingdom. Ticketmaster is also a party to a joint venture with a third party to provide ticket distribution services in Mexico and a joint venture with third parties to supply ticketing services for the 2008 Beijing Olympic Games. Ticketmaster also licenses its technology in Mexico and other Latin American countries. Ticketmaster continues to seek to further expand its ticketing operations into territories outside of the United States. Ticketing also includes ReserveAmerica, a leading provider of campground reservation services and software to United States federal and state agencies.

Ticketmaster continues to seek to expand its ticket distribution capabilities through the continued development of its website, *www.ticketmaster.com*, and related domestic and international websites, which are designed to promote ticket sales for live events and disseminate event information. Ticketmaster's primary ticketing website, *www.ticketmaster.com*, is a leading online ticketing service that enables consumers to purchase tickets over the internet for live music, sports, arts and family entertainment events presented by Ticketmaster's clients. Consumers can access *www.ticketmaster.com* directly, from the websites of Ticketmaster's affiliates (including some IAC businesses) and through numerous direct links from banners and event profiles hosted by approved third party websites. In addition, *www.ticketmaster.com* and related international websites provide local information and original content regarding live events for Ticketmaster clients throughout the United States and abroad. In

2006, a majority of the tickets sold by Ticketmaster were sold online and Ticketmaster expects that this will continue to be the case in the future.

Ticketmaster continues to develop and introduce new initiatives to help its clients sell more tickets. From time to time, upon request by certain of its clients, Ticketmaster conducts online auctions, pursuant to which consumers bid on tickets being sold by clients through Ticketmaster and purchase them at a price equal to the highest winning bid. In addition to customary order processing fees and premium delivery fees, for tickets sold through online auctions, Ticketmaster receives fees based on a percentage of the prices at which the tickets were sold. Ticketmaster also makes tickets available to members of official artist fan clubs and sells related fan club memberships online, in connection with which it receives a fixed fee per ticket or fan club membership sold. Lastly, in accordance with applicable law, Ticketmaster allows its consumers and sporting event season ticket holders to offer their tickets for resale online through its TicketExchange service. Ticketmaster typically charges a fee to the buyer and/or seller in connection with TicketExchange transactions. Additional fees received in connection with the initiatives described above are generally shared with clients based on the terms of negotiated contracts.

Ticketmaster System. Ticketmaster believes that its core proprietary operating system and software, generally referred to as the Ticketmaster System, as well as its extensive distribution capabilities, provide its clients with a number of benefits, including the ability to reach a wider audience of potential ticket purchasers as well as to handle complex ticketing transactions and sell large volumes of tickets more quickly, efficiently and reliably than would be possible if tickets were sold independently. In addition, the Ticketmaster System enables clients to continuously adapt to emerging and changing trends in the live entertainment industry in a more efficient and cost-effective manner than they could do on their own. The Ticketmaster System, which includes both hardware and software, is typically located in one of the multiple data centers managed by Ticketmaster staff. The entire Ticketmaster distribution network, including the Ticketmaster System, provides a single, centralized inventory control and management system capable of tracking total ticket inventory for all events, whether sales are made on a season, subscription, group or individual ticket basis. The hardware and software required for the use of the Ticketmaster System is installed in clients' facility box offices, in Ticketmaster's call centers and in third party retailers' remote sales outlets. The versatility of the Ticketmaster System allows it to be customized to satisfy a full range of client requirements. In areas of Europe outside of the United Kingdom and Ireland, Ticketmaster's operating businesses generally use localized versions of Ticketmaster's proprietary operating system and software, or their own separate, local operating systems and software, all of which are also proprietary to Ticketmaster.

Client Relationships. Ticketmaster generally enters into written agreements with its clients pursuant to which it agrees to license the Ticketmaster System and related systems to clients, and to serve as the clients' exclusive ticket sales agent for sales of individual tickets sold to the general public outside of facility box offices, including any tickets sold over the internet, by phone, and at third party retailers' remote sales outlets, for specified multi-year periods. Pursuant to an agreement with a facility, Ticketmaster generally is granted the right to sell tickets for all events presented at that facility for which tickets are available to the general public, and as part of such arrangement, Ticketmaster installs the necessary ticketing equipment in the facility's box office. An agreement with a promoter generally grants Ticketmaster the right to sell tickets for all events presented by that promoter at any facility for which tickets are publicly available, unless the facility is already covered by an existing agreement with Ticketmaster or is covered by an exclusive agreement with another automated ticketing service company. Small allotments of tickets for events are generally reserved for sale through fan or other similar clubs and/or other standard industry practices and exceptions, provided however that Ticketmaster's clients may not utilize, authorize or promote the services of third party ticketing companies while under contract with Ticketmaster.

Ticketmaster generally does not buy tickets from its clients for resale to the public and typically assumes no financial risk for unsold tickets. All ticket prices are determined by Ticketmaster's clients or by consumers (*e.g.*, in an auction of tickets available on the Ticketmaster System). Ticketmaster's clients also generally determine the scheduling of when tickets go on sale to the public and what tickets will be available for sale through Ticketmaster. Facilities and promoters, for example, often handle group sales and season tickets in-house and certain tickets may be sold through fan or other similar clubs. Ticketmaster only sells a portion of its clients' tickets, the amount of which varies from client to client and from event to event, and varies as to any single client from year to year.

Revenues. Ticketing revenue is generated primarily from convenience charges and order processing and delivery fees received by Ticketmaster for each ticket sold by Ticketmaster on behalf of its clients. Convenience charges and order processing fees are negotiated and included in Ticketmaster's contracts with its clients. Pursuant to these contracts, Ticketmaster is granted the right to collect from ticket purchasers a per ticket convenience charge on all tickets sold through its websites, by telephone and through retail sales outlets and other media. Generally, the amount of the convenience charge is determined during the contract negotiation process, and typically varies based upon numerous factors, including the services to be rendered to the client, the amount and cost of equipment to be installed at the client's box office and the amount of advertising and/or promotional allowances to be provided, as well as the type of event and whether the ticket is purchased through *www.ticketmaster.com*, by telephone, through a remote sales outlet or other media. Any deviations from those amounts for any event are negotiated and agreed upon by Ticketmaster and its client prior to the commencement of ticket sales. There is an additional per order "order processing" fee on all ticket orders sold by Ticketmaster other than at retail sales outlets, and an additional premium delivery fee per order in cases where consumers opt for premium delivery (*e.g.*, delivery via overnight courier or e-mail in the case of Ticketmaster's TicketFast product). Generally, the agreement between Ticketmaster and a client will also establish the amounts and frequency of any increases in the convenience charge and order processing fees during the term of the agreement. In many cases, clients participate in the convenience charges and/or order processing fees and/or premium delivery fees paid by ticket purchasers for tickets bought through Ticketmaster for their events. The amount of such participation, if any, is determined by negotiation between Ticketmaster and the client. In some cases, maximum charges on tickets are established and regulated by state and local law. See "Item 1A Risk Factors Changing Laws, Rules and Regulations."

Competition. Ticketmaster's ticketing business faces competition in the United States and abroad from other national, regional and local ticketing service companies and entertainment organizations with ticketing distribution capabilities, as well as from clients and aggregations of clients, such as major league sports leagues, which increasingly have the capability to fulfill ticketing distribution and management functions through their own systems or by licensing software. Not all facilities, promoters and other potential clients use the services of an automated ticketing company, choosing instead to distribute their tickets through their own internal box offices or other distribution channels. In addition, Ticketmaster faces competition in the secondary market from ticket brokers and other resellers, as the advent of the internet has enabled these parties to increase their distribution capabilities.

Other companies compete with Ticketmaster by selling stand-alone automated ticketing systems to enable facilities to do their own ticketing. Several of Ticketmaster's competitors have operations in multiple locations, while others compete principally in one specific geographic location. Ticketmaster experiences substantial competition for potential client accounts and renewals of contracts on a regular basis. See "Item 1A Risk Factors Third Party Relationships Services Ticketing." Ticketmaster competes on the basis of the range of products and services it provides, the capability of its ticketing system and distribution network, reliability and price.

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

Lending

Overview. Lending consists of businesses that offer lending and lending-related products and services, including loan settlement services, through online exchanges that connect consumers and service providers in the lending industry, other Lending-owned and affiliated websites and the telephone.

Services offered through Lending's online exchanges primarily encompass home mortgages (in connection with refinancings and purchases) and home equity loans, as well many other consumer credit categories, including automobile loans, personal loans and credit cards. Consumers seeking loan products through an exchange channel generally begin the process by completing a simple request, known as a qualification form, online or over the telephone. After the qualification form has been completed, Lending's online exchanges automatically retrieve the consumer credit information and compare this information to the underwriting criteria of participating lenders. Qualified consumers can receive multiple conditional loan offers, generally up to five, from participating lenders or LendingTree Loans (as described below) in response to a single request, after which they may then compare, review and accept the offer that best suits their needs.

Through Lending's online exchanges, participating lenders can generate new business that meets their specific underwriting criteria, generally at a lower cost of acquisition than through traditional marketing channels. Due to the volume and diversity of consumer leads generated by Lending's online exchanges, IAC believes that these exchanges will continue to deliver value to participating lenders as a cost-effective distribution channel.

Lending's businesses also originate, process, approve and fund various residential real estate loans under two brand names, LendingTree Loans and Home Loan Center, which brand names are collectively referred to in this report as "LendingTree Loans." For these purposes, Lending maintains loan officers in California and, to a lesser extent, North Carolina, and is able to provide a broad range of real estate loan products to consumers in all 50 states, including conforming and non-conforming loans, prime and subprime loans, adjustable loans and fixed rate loans. A portion of the consumer leads generated by Lending's online exchanges are closed in the name of LendingTree Loans. Consumer leads are also sourced, to a lesser extent, from a variety of channels, including online lead aggregators (other than Lending's online exchanges) and direct mail campaigns. When the Lending business closes loans in its own name to consumers through the exchange, it offers those consumers a choice among various loan alternatives based on different wholesale offers made to it by the secondary investors who purchase the loans, thus maintaining the choice element inherent in the LendingTree model.

Lending's businesses fund and close loans using proceeds from borrowings under available warehouse lines of credit. Substantially all of the loans funded are sold to investors in the secondary market on a servicing released basis, generally within 30 days of funding, with the proceeds from such sales being used to repay borrowings under the warehouse lines of credit. See "Item 1A Risk Factors Adverse Events and Trends Lending and Real Estate" and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Position, Liquidity and Capital Resources."

Services available through Lending's businesses are subject to extensive regulation by various federal, state and, in some instances, local, governmental authorities. See "Item 1A Risk Factors Compliance."

Revenues. Revenues from Lending's online exchanges principally represent transmission fees and closed-loan fees paid by lenders that received a transmitted loan request or, in certain cases, closed a loan for a consumer that originated through one of LendingTree's websites or affiliates. Since a given qualification form can be transmitted to more than one participating lender, multiple transmission fees may be generated from the same qualification form. Revenues from direct lending are derived primarily from the sale of loans, and to a lesser extent, the origination of loans.

Competition. Lending's businesses compete with traditional offline lending institutions and financial service companies, as well as with local mortgage brokers. Lending's businesses also compete with online lenders (including traditional offline lending institutions that have developed their own stand-alone online lending channels) that originate the bulk of their loans through their own websites or the telephone. These companies typically operate branded websites and attract consumers via online banner ads, key word placements on search engines, partnering with affiliates and business development arrangements with other properties, including major portals.

Real Estate

Overview. Real Estate primarily consists of RealEstate.com, an online network that connects consumers with real estate agents and brokerages around the country, iNest, an online provider of real estate services in the case of newly constructed homes, and a proprietary real estate brokerage business that currently operates in eight markets. Consumers interested in working with a real estate professional in connection with the purchase or sale of an existing or newly constructed home can access online real estate-related services offered by Real Estate's businesses and complete a simple form. Consumers looking to be matched with a real estate broker or agent will be provided with a choice of local real estate professionals from a nationwide network and in some cases, may be matched with an agent from Real Estate's proprietary real estate brokerage business. In the case of consumers looking to find newly-constructed homes, iNest provides consumers with a coupon that is presented to their new homebuilder, registering iNest as the real estate broker of record. In all cases, if the consumer and the real estate professional agree to work together, the remainder of the transaction is completed locally and in certain cases, the consumer may be eligible for rebates and promotional incentives.

Real Estate earns revenue from subscription and cooperative brokerage fees paid by real estate professionals participating on its exchange. Real Estate generates revenues from cooperative brokerage fees when the transmission of consumer information to the real estate professional results in the purchase or sale of a home, upon the transmission of consumer information to a participating real estate professional or in advance for the right to receive leads on a recurring basis over pre-determined time periods. Real Estate's proprietary real estate brokerage business earns revenues through the real estate brokerage commissions it collects. In the case of consumers that have used the services of iNest to find a newly constructed home, Real Estate earns a commission when the consumer closes a transaction with the builder.

Services available through Real Estate's businesses are subject to extensive regulation by various federal, state and, in some instances, local, governmental authorities. See "Item 1A Risk Factors Compliance."

In addition to services described above, Real Estate provides the following services and content through *www.RealEstate.com* and affiliated websites:

- *Free Home Price Checks*: an automated valuation tool that allows consumers to estimate the value of properties;
- *Real Estate Listings*: pictures and listings of homes for sale; and
- *HouseWatch*: an automated e-mail notification service regarding new home listings as they come on the market.

Competition. Real Estate's businesses compete with traditional offline real estate companies, as well as websites that provide online real estate referral services for a fee and websites that offer real estate broker lists without related services and customer support.

Home Services

Overview. Home Services consists primarily of ServiceMagic, a leading online marketplace that connects consumers with pre-screened, customer-rated home service professionals by way of its various patented and patent-pending, proprietary technologies. When consumers submit a home service request through the ServiceMagic marketplace, ServiceMagic matches them with home service professionals from its network of pre-screened, customer-rated home service professionals. ServiceMagic's home service professionals collectively provide coverage for a wide variety of different home service categories, ranging from simple home repairs and maintenance to complete homebuilding and home remodeling projects.

ServiceMagic also offers its patent-pending Exact Match service, which creates a one-to-one connection between consumers and member businesses. With Exact Match, ServiceMagic optimizes the placement of the member web pages within the search results of local search engines and online directories. Exact Match provides a way for home service professionals to get broad internet exposure without having to pay huge up-front fees, build and maintain complex web sites or become internet marketing or search engine experts.

ServiceMagic earns revenue primarily from fees paid to ServiceMagic by member businesses for consumer leads, regardless of whether the member business that received the lead ultimately provides the requested service, as well as from one time fees charged to member businesses upon their enrollment in the ServiceMagic network.

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

Media & Advertising

Overview. Media & Advertising consists of IAC Search & Media, formerly known as Ask Jeeves, Inc., a provider of information search and related services, Citysearch, a network of local city guide websites, and Evite, a social planning website. IAC Search & Media:

- provides information search services to computer users through Ask-Global, which consists of Ask.com and other proprietary websites;
- provides downloadable consumer applications, distributes search boxes and operates content-rich portals through IAC Consumer Applications and Portals; and
- provides advertising services through IAC Advertising Solutions.

Ask-Global. Search services are offered through *www.ask.com* and other Ask destination search websites, as well as through consumer applications, including toolbars and search boxes, and portals. See " IAC Consumer Applications and Portals." Search services fall into two main categories, destination search services and convenience search services. Destination searches occur when an internet user navigates directly to an Ask destination search website to submit his or her search query directly to that particular website. Convenience searches, by contrast, occur when search queries are submitted through any search box made available to the user, for example, through a search box located within a previously downloaded consumer application, as opposed to directly accessing an Ask destination search website.

Ask's primary destination search websites are accessible in the U.S., the U.K. and Spain through *www.ask.com*, and in Japan through *www.ask.jp* (a joint venture). Ask operates beta sites in Germany, France, Italy and the Netherlands, each of which is accessible through *www.ask.com* in the applicable country. These websites utilize proprietary algorithmic search technology to generate search results. Ask-Global seeks to differentiate these websites from other search engines in a number of ways, including by offering the following features:

Advanced Results Ranking in addition to ranking a relevant page based on how many other sites link to it, Ask's search engine technology ranks a relevant page based on whether other sites linking to it are themselves respected within the pertinent subject-matter community;

Related Topics Ask's search engine technology presents users with a list of related topic suggestions in addition to a list of websites likely to offer relevant and authoritative content;

MyStuff a personalized search service for saving, sharing and organizing search results;

Binoculars Preview Tool a tool that allows users to preview search results and related websites by simply mousing over the binoculars icon within their search results (other than paid listings);

Smart Answers in addition to a list of websites likely to offer relevant and authoritative content, Ask in the U.S. and the U.K. display "Smart Search" results in response to many popular query topics, including local business listings and reviews, movies, weather and maps, among others. The Smart Search function delivers the information the user is seeking right on the results page; and

AskCity a local search service that combines broad local content from certain IAC and non-IAC companies with a distinctive user interface and intuitive search tools.

IAC Consumer Applications and Portals. The IAC Consumer Applications and Portals business offers several free downloadable applications that include search functionality, such as *FunWebProducts*, which are applications with features that are designed to make online activities more personal, interesting and fun. These features include *Smiley Central*, which allows users to add emoticons to e-mails and instant messages, *Zwinky*, which allows users to create avatars to express their persona on the web and design and update profile pages to share with friends, and *Popular Screensavers*, which allows users to display their own images or videos as screensavers.

IAC Consumer Applications and Portals offers other branded search toolbars, including the *MyWebSearch* and *MySearch* toolbars. These toolbars enable users to run search queries from any website using one of several popular search algorithms, including those of Ask destination search websites. Many of these toolbars offer additional benefits, such as pop-up blocking and quick access to personalized portal content. These toolbars can be downloaded from Ask websites and installed free of charge, with the *MyWebSearch* toolbar being promoted by distribution through the *FunWebProducts* described above. In addition, distribution arrangements are in place with several third parties to bundle the *MySearch* toolbar with their downloadable applications, in which cases related revenues are generally shared (net of amounts retained by paid listing providers) with these third parties.

Distribution agreements are also entered into with third parties and IAC affiliated companies to permit or require these parties to add an Ask-powered search box to their websites or applications. Search boxes make these websites or applications more attractive to their users and are relatively simple to implement, as users who enter search queries are taken to a results page serviced and controlled by Ask. Related revenues are generally shared (net of amounts retained by paid listing providers) with third party websites and application providers, with flat fees paid in some cases.

This business also operates the following content-rich portals, all of which have search functionality and offer internet services, such as e-mail, portfolio tracking and message boards: *www.iWon.com*, an entertainment portal with a user loyalty program built around cash and other sweepstakes prizes; *www.MyWay.com*, a portal that is free from banner, pop-up and rich-media ads; and *www.Excite.com*, a content-rich portal that aggregates news, sports, weather and entertainment content. Portal content, including news, weather, shopping comparisons and horoscopes, among other content, is generally licensed from third party content providers. In addition, this business offers co-branded portals to third parties, with related revenues generally shared (net of amounts retained by paid listing providers) with such third parties, with flat fees paid in some cases.

IAC Consumer Applications and Portals also operates and manages Evite, which offers a free online invitation service and has listings for restaurants, bars and clubs powered by Citysearch. Evite also hosts a live event database through relationships with leading ticketing and event services, including Ticketmaster, and provides a number of party planning content, features and tools.

IAC Advertising Solutions. IAC Advertising Solutions provides advertisers with the ability to run their online advertisements on IAC Search & Media's proprietary portals, *www.iWon.com* and *www.excite.com*, the Evite portal and other IAC properties. IAC Advertising Solutions also offers Ask Sponsored Listings, an online marketing product pursuant to which advertisers may purchase online traffic by bidding for placement in Ask search result pages.

Some portals, meta-search providers and other third party websites seek to incorporate search results from Ask destination search websites and paid listings (both third party paid listings and Ask Sponsored Listings) into other content on their websites. In these cases, syndication agreements are entered into with these third party websites to deliver, or "syndicate," search results and paid listings to results pages they control. Related revenues are generally shared (net of amounts retained by paid listing providers) with these third party websites, and in some cases, third party publishers may also be charged a fee for algorithmic results.

Citysearch. Citysearch is a network of local city guide websites that offer primarily original local content for major cities in the U.S. and abroad. Citysearch city guides provide up-to-date, locally produced information about a given city's arts and entertainment events, bars and restaurants, recreations, community activities and businesses (shopping and professional services), as well as real-estate related and travel information. Citysearch offers local and national advertising. Local advertising is offered through a Pay-For-Performance model, where local businesses pay for the number of consumer connections made. Consumer connections consist of visits to the respective Citysearch profile pages of these businesses or to their own websites through Citysearch, as well as telephone calls. Citysearch city guides also support online local transactions, including hotel reservations and matchmaking, ticketing and travel-related services through affiliations with leading e-commerce websites, some of which are IAC affiliated businesses. These affiliate partners generally pay Citysearch fees (on a per click or revenue sharing basis, as applicable) for consumer leads sent to their respective websites.

Revenues. Media & Advertising revenues consist primarily of advertising revenues. Advertising revenues are generated primarily through the display of paid listings in response to destination and convenience searches, as well as from advertisements appearing on IAC Search & Media and third party websites and the syndication of results generated by Ask destination search websites. The substantial majority of advertising revenues are attributable to a paid listing supply agreement with Google, which expires, unless renewed by mutual agreement, on December 31, 2007. See "Item 1A Risk Factors Third Party Relationships Media & Advertising." Citysearch's revenues are generated primarily through the sale of online advertising, both local and national, and to a smaller extent, from transaction fees from affiliate partners. Citysearch also derives revenues from self-enrollment, enhanced listing in search results and targeted e-mail and sponsorship packages.

Competition. In its efforts to attract search engine users, syndicate search technologies, distribute downloadable applications and attract partners and advertisers, IAC Search & Media's businesses compete against operators of destination search sites and search-centric portals, search technology and convenience search service providers, online advertising networks and traditional media companies, as most advertisers continue to spend a small portion of their overall advertising budgets on online advertising. IAC Search & Media believes that its ability to compete effectively with other search engines and portals for web traffic and advertisers depends upon, among other things, the relevance and authority of its search results, the ease of use of its search services, the quality of its content, the utility of new and existing features on its websites (and the frequency with which users utilize them), the acceptance of its advertising models and the speed with which it matches others' innovations. Evite competes with a number of online and offline invitation and party planning services, including providers of online greeting cards, web-based invitation services, paper-based invitation services and party planning services, as well as with online and offline social networking services and providers of live event listing information and restaurant, bar and nightlife content.

The markets for local content, local services and local advertising are highly competitive and diverse. Citysearch's primary competitors include online providers of local content, numerous search engines and other site aggregation companies, as well as media, telecommunications and cable companies, internet service providers and niche competitors that focus on a specific category or geography and compete with specific content offerings provided by Citysearch.

Membership & Subscriptions

Vacations

Overview. Vacations consists of Interval International, or Interval, a leading membership-services company providing timeshare exchange and other value-added programs to its timeshare-owning members and resort developers worldwide. As of December 31, 2006, Interval had established contractual affiliations with more than 2,200 resorts located in 79 countries and provided timeshare exchange services to nearly 1.9 million timeshare owners. Interval's revenues are generated primarily from fees paid by members in connection with exchange and rental transactions and membership fees.

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

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

As an upgrade to its basic membership program, for an additional annual fee, exchange members can participate in the Interval Gold Program, a value-added, membership enhancement program. The Interval Gold Program provides exchange members with year-round benefits and services, such as hotel, dining and leisure discounts, a concierge service and access to special exchange options, including golf, spa and cruise exchanges. As of December 31, 2006, approximately 36% of Interval's timeshare exchange members were enrolled in the Interval Gold Program.

Interval uses advanced telecommunications systems and technologies to deliver exchange and membership services to its members through call centers and through its website, *www.intervalworld.com*. Interval also makes travel-related products and services available to its members and others directly and through third party providers, as well as additional services through its website to select exchange members.

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

Personals

Overview. Personals consists primarily of Match.com, as well as uDate.com, Chemistry.com and related brands, all of which offer single adults a private and convenient environment for meeting other singles through their respective websites, as well as through Match.com's affiliated networks. As of December 31, 2006, these brands and their networks serviced approximately 1.3 million paid subscribers, with Match.com operating 30 localized international dating sites in 18 languages.

Match.com provides users with access to other users' personal profiles and also enables a user interested in meeting another user to send e-mail messages to that user through Match.com's double-blind anonymous e-mail system. E-mail recipients respond depending on their interest in the sender. It is free to post a profile on Match.com and to use any of the searching and matching tools available on the site. Match.com charges a subscription fee to users who wish to initiate, review or respond to e-mails from Match.com subscribers, starting with a single-month term, with discounts for longer term subscriptions. Match.com also offers related premium products and services to its subscribers, including *MindFindBind*, a web-based program that aims to help Match.com subscribers design a dating action plan.

Match.com has entered into partnerships and strategic alliances with third parties in order to increase subscriptions in general, as well as to target particular segments of its potential subscriber base and a broader and more diverse online audience. Typically, these partners earn a commission on each customer subscription they sell into the Match.com service. Some, but not all, of the related agreements with third parties contain renewal provisions.

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

Discounts

Overview. Discounts consists of Entertainment Publications, Inc., or EPI, a marketer of coupon books, discounts, merchant promotions, gift wrap and other products. As of December 31, 2006, EPI served approximately 158 major markets and did business with approximately 65,000 local merchants and national retailers representing approximately 215,000 North American locations. EPI's Entertainment® Book contains discount offers from local and national restaurants and hotels, leading national retailers and other merchants specializing in leisure activities. Information regarding updated offerings is available through EPI's website, *www.entertainment.com*.

EPI's Entertainment® Book is typically sold in connection with fund-raising events, with a percentage of the sale proceeds from these events retained by schools, community groups and other non-profit organizations. EPI also markets discount membership and packages in published and online formats to consumers via online commerce, direct marketing, corporate and retail channels. Additionally, EPI offers discounts via a monthly subscription product, Entertainment Rewards®, which provides consumers with online access to print, click-through or code-based discounts at *www.entertainmentrewardsclub.com*.

Competition. EPI currently competes on a national level with other providers of dining and other discounts, and on a local level with a variety of discount programs distributed via traditional fundraising channels. EPI also competes with, and expects to face increasing competition from, companies that use traditional fundraising channels to distribute products other than local discount or coupon books, such as gift wrap, magazines and chocolates, as well as from companies that offer new, non-traditional fundraising options, such as the hosting of fundraising events and related services.

Employees

As of December 31, 2006, IAC and its subsidiaries employed approximately 16,000 full-time employees and approximately 4,000 part-time employees across its various businesses. IAC believes that it generally has good employee relationships, including relationships with employees represented by unions or other similar organizations.

Additional Information

Company Website and Public Filings. The Company maintains a website at *www.iac.com*. Neither the information on the Company's website, nor the information on the website of any IAC business, is incorporated by reference in this report, or in any other filings with, or in any information furnished or submitted to, the Securities and Exchange Commission, or the SEC.

The Company makes available, free of charge through its website, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K (including related amendments) as soon as reasonably practicable after they have been electronically filed with, or furnished to, the SEC.

Code of Ethics. The Company's code of ethics, which applies to all employees, including all executive officers and senior financial officers (including IAC's Chief Financial Officer and IAC's Controller) and directors, is posted on the Company's website at *www.iac.com/newiaccodeofethics.pdf*. The code of ethics complies with Item 406 of SEC Regulation S-K and the rules of the Nasdaq National Market. Any changes to the code of ethics that affect the provisions required by Item 406 of Regulation S-K, and any waivers of the code of ethics for IAC's executive officers, directors or senior financial officers, will also be disclosed on IAC's website.

Item 1A. ***Risk Factors***

Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K contains "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The use of words such as "anticipates," "estimates," "expects," "projects," "intends," "plans" and "believes," among others, generally identify forward-looking statements. These forward-looking statements include, among others, statements relating to: IAC's anticipated financial performance, IAC's business prospects and strategy, anticipated trends and prospects in the various industries in which IAC businesses operate, new products, services and related strategies and other similar matters. These forward looking statements are based on management's current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Actual results could differ materially from those contained in the forward looking statements included in this report for a variety of reasons, including, among others, the risk factors set forth below. Other unknown or unpredictable factors that could also adversely affect IAC's business, financial condition and results of operations may arise from time to time. In light of these risks and uncertainties, the forward looking statements discussed in this report may not prove to be accurate. Accordingly, you should not place undue reliance on these forward looking statements, which only reflect the views of IAC management as of the date of this report. IAC does not undertake to update these forward-looking statements.

Risk Factors

IAC's business, financial condition and results of operations are subject to certain risks that are described below. The risks and uncertainties described below are not the only ones facing IAC. Additional risks and uncertainties not presently known or that are currently deemed immaterial may also impair IAC's business, financial condition and results of operations.

Management IAC depends on its key personnel.

The future success of IAC will depend upon its continued ability to identify, hire, develop, motivate and retain highly skilled individuals, with the continued contributions of its senior management, particularly Barry Diller, the Chairman and Chief Executive Officer of IAC, being especially critical to IAC's success. If Mr. Diller no longer serves in, or serves in some lesser capacity than, his current role, IAC's business, financial condition and results of operations, as well as the market price of IAC's securities, could be adversely affected. Competition for well qualified employees across IAC's various businesses is intense, and IAC's continued ability to compete effectively depends, in part, upon its ability to attract new employees. While IAC has established programs to attract new employees and provide incentives for and retain existing employees, particularly its senior management, IAC cannot assure you that it will be able to attract new employees or retain the services of Mr. Diller, other members of its senior management or any other key employees in the future. Mr. Diller does not have an employment agreement with IAC, though he owns approximately 5.4 million shares of IAC common stock, and holds options to purchase a substantial number of shares of IAC common stock, 70% of which expire in October 2007.

Control of IAC Mr. Diller currently controls IAC. If Mr. Diller ceases to control IAC, Liberty Media Corporation may effectively control IAC.

Subject to the terms of an amended and restated stockholders agreement between Mr. Diller and Liberty, Mr. Diller has an irrevocable proxy to vote shares of IAC common stock and IAC Class B common stock held by Liberty. Accordingly, Mr. Diller effectively controls the outcome of all matters submitted to a vote or for the consent of IAC's stockholders (other than with respect to the election by the holders of IAC's common stock of 25% of the members of IAC's Board of Directors and matters as to which Delaware law requires a separate class vote). Upon Mr. Diller's permanent departure from IAC, the irrevocable proxy terminates and, depending upon the capitalization of IAC at such time, Liberty may effectively control the voting power of the capital stock of IAC through its ownership of IAC common stock and IAC Class B common stock. For additional information regarding Mr. Diller's and Liberty's ownership interests in, and voting power with respect to, IAC common stock and IAC Class B common stock, see "Item 1 Business Equity Ownership and Voting Control."

In addition, under an amended and restated governance agreement among IAC, Liberty and Mr. Diller, each of Mr. Diller and Liberty generally has the right to consent to limited matters in the event that IAC's ratio of total debt to EBITDA (as defined in the governance agreement) equals or exceeds 4:1 over a continuous 12-month period. While neither of Mr. Diller nor Liberty may currently exercise this right, no assurances can be given that this right will not be triggered in the future, and if so, that Mr. Diller and Liberty will consent to any of the limited matters at such time, in which case IAC would not be able to engage in transactions or take actions covered by this consent right.

As a result of Mr. Diller's ownership interests and voting power, and Liberty's ownership interests and voting power upon Mr. Diller's permanent departure from IAC, Mr. Diller is currently, and in the future Liberty may be, in a position to control or influence significant corporate actions, including without limitation, corporate transactions such as mergers, business combinations or dispositions of assets and determinations with respect to IAC's significant business direction and policies. This concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction that may otherwise be beneficial to IAC, which could adversely affect the market price of IAC securities.

Third Party Relationships IAC businesses depend on their relationships with third party distribution channels, suppliers and advertisers and any adverse changes in these relationships could adversely affect IAC's business, financial condition and results of operations.

An important component of the success of IAC's various businesses depends on their ability to maintain their existing, as well as build new, relationships with third party distribution channels, suppliers and advertisers, among other parties. Any adverse changes in these relationships could adversely affect IAC's business, financial condition and results of operations.

Retailing

Retailing U.S. is dependent upon the pay television operators with whom HSN enters into distribution and affiliation agreements to carry the HSN television network. See "Item 1 Business Description of Business Retailing Retailing U.S. Television Programming Pay Television Distribution." Distribution and affiliation agreements with major pay television operators expire from time to time and in some cases, renewals are not agreed upon prior to the expiration of a given agreement and the HSN television network continues to be carried by the relevant pay television operator without an effective affiliation agreement in place. This occurred in the case of certain distribution and affiliation agreements with major pay television operators that expired in 2005 and 2006, and HSN is currently engaged in the renewal and/or negotiation processes with the relevant pay television providers. No assurances can be given that HSN will be able to successfully pursue the renewal of, or negotiate new, distribution and affiliation agreements with pay television providers to carry the HSN television network on acceptable terms, if at all.

While the cessation of carriage of the HSN television network by a major pay television operator or a significant number of smaller pay television operators could adversely affect IAC's business, financial condition and results of operations, IAC believes that it will be able to continue to successfully manage the distribution process in the future, although certain changes in distribution levels, as well as increases in commission rates and/or other fees payable by HSN for carriage, could occur notwithstanding these efforts.

Services

Ticketing. Ticketing is dependent upon its clients for ticketing supply. Securing tickets depends, in part, on the ability of Ticketing to enter into, maintain and renew client contracts on favorable terms, including its most significant contract, which is with Live Nation, Inc. and expires on December 31, 2008. No assurances can be provided that Ticketing will continue to be able to maintain these client contracts, or enter into or maintain other client contracts, on acceptable terms, if at all, and its failure to do so could adversely affect its business, financial condition and results of operations. In addition, some facilities, promoters and other potential clients elect to distribute some of their tickets through client direct or other new channels. The increased and continued use of client direct and/or new distribution channels by clients could adversely affect the business, financial condition and results of operations of Ticketing. See "Item 1 Business Description of Business Services Ticketing."

Lending and Real Estate. The ability of IAC's Lending and Real Estate businesses to provide lending, real estate and related services depends, in significant part, on the quality and pricing of services provided by participating lenders and real estate professionals and access to real estate leads and listings. The failure of a significant number of participating lenders and/or real estate professionals to participate on the exchanges operated by, or otherwise enter into relationships with or provide real estate leads and listings to, IAC's Lending and Real Estate businesses for any reason and/or provide quality services on competitive terms, could adversely affect the business, financial condition and results of operations of these businesses. See "Item 1 Business Description of Business Services Lending" and " Real Estate."

Media & Advertising

A material portion of the revenues of the Media & Advertising sector is derived from advertising. In the case of IAC Search & Media, the substantial majority of its advertising revenues are attributable to a paid listing supply agreement with Google, which expires, unless renewed by mutual agreement, on December 31, 2007. Pursuant to this agreement, paid listings appear on search results generated on Ask websites and the websites of IAC Search & Media's various syndication partners in response to keywords selected by advertisers with which Google has entered into contracts. While IAC believes that, in the absence of the renewal of this paid listing agreement, IAC Search & Media could enter into similar arrangements with alternative paid listing providers, as well as continue to contract with advertisers directly through the introduction of new advertising products and services, no assurances can be given that this will be the case, or if so, that these arrangements will be on equally favorable terms. The failure of IAC Search & Media or any of the other businesses within the Media & Advertising sector to retain existing, or attract new, advertisers and/or distribution partners, as well as generate traffic to their respective websites, could adversely affect the business, financial condition and results of operations of the Media & Advertising sector. See "Item 1 Business Description of Business Media & Advertising."

Memberships & Subscriptions

Vacations. Interval is dependent upon timeshare developers for new members. Interval's failure to maintain existing or negotiate new arrangements with timeshare developers, as well as the continued creation and operation by timeshare developers of their own internal reservation and exchange systems, could result in decreases in Interval's membership base, timeshare supply and/or related transactions, which could adversely affect IAC's business, financial condition and results of operations. See "Item 1 Business Description of Business Membership & Subscriptions Vacations."

Adverse Events and Trends Adverse events or trends in the various industries in which IAC businesses operate could harm IAC's business, financial condition and results of operations.

IAC businesses in general are sensitive to trends or events that are outside of IAC's control. Adverse events and trends, including general economic downturns, decreases in consumer spending and borrowing and natural or other disasters, as well as adverse events or trends in the various industries in which IAC businesses operate, among other adverse events and trends, could adversely affect IAC's business, financial condition and results of operations.

Retailing

Retailing is dependent upon the continued ability to transmit the HSN television network to broadcast and pay television operators from HSN's satellite uplink facilities. See "Item 1 Business Description of Business Retailing Retailing U.S. Television Programming Reach." While HSN has designed business continuity and disaster recovery plans to ensure its continued satellite transmission capability on a temporary basis in the event of inclement weather or a natural or other disaster, the prolonged or permanent interruption of its satellite transmission capability for any reason and/or related costs incurred could adversely affect IAC's business, financial condition and results of operations. In addition, Retailing is dependent upon the continued ability to secure channel capacity and placement for the HSN television network, which is impacted by changing laws, rules and regulations regarding cable television ownership. See " Changing Laws, Rules and Regulations."

Retailing is also dependent, in part, upon the ability of its various businesses to predict or respond to changes in consumer preferences and fashion and other trends in a timely manner. Accordingly, these businesses are continuously developing new retail concepts and adjusting product mix in an effort to satisfy customer demand. The failure of the businesses within Retailing to identify and respond to emerging trends that impact their respective businesses could adversely affect IAC's business, financial condition and results of operations.

The Catalogs business is sensitive to increases in postal rates and paper and printing costs, which increase the costs associated with catalog and promotional mailings and which could adversely impact Retailing's results. Future additional increases in postal rates or in paper or printing costs could reduce the profitability of the Catalogs business to the extent that increases cannot be passed directly to customers or offset by raising selling prices or by implementing mailings that result in increased purchases.

Services

Ticketing. Ticketing is sensitive to fluctuations in the number and pricing of entertainment, sporting and leisure events and activities offered by promoters and facilities, as well as general economic and business conditions generally and in these industries. Entertainment-related expenditures are sensitive to business and personal discretionary spending levels, which tend to decline during general economic downturns. Accordingly, adverse trends in the entertainment, sporting and leisure events industries or general economic or business conditions could adversely affect the business, financial condition and results of operations of Ticketing.

Lending and Real Estate. The results of IAC's Lending and Real Estate businesses are impacted by fluctuations in interest rates and the effectiveness of hedging activities, as well as the number of homes available and/or listed for sale and the pricing of these homes (which is impacted by construction rates and related costs) and the reactions of consumers, lenders and others to these and other trends in the lending and real estate industries. Generally, increases in interest rates adversely affect the ability of the Lending business to close loans, while adverse economic trends limit the ability of the Lending business to offer certain highly profitable products, such as subprime mortgages. See "Item 1 Business Description of Business Lending Overview," "Item 7 Management's

Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates" and "Item 7A Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk."

Media & Advertising

A material portion of the revenues of the Media & Advertising sector is derived from advertising. Accordingly, these businesses are sensitive to general economic downturns and decreases in consumer spending, among other events and trends, which generally result in decreased advertising expenditures, as well as the continued growth and/or acceptance of online advertising as an effective alternative to offline advertising media. In addition, the number of advertisements and paid search results that Media & Advertising businesses deliver depends on the acceptance of new, and the continued and increased acceptance of its existing, advertising models, which could be adversely affected by the introduction of new advertising models by its competitors. Lastly, technologies have been developed, and are likely to continue to be developed, that can block the display of advertisements and paid search results. This technology could reduce the number of advertisements and paid search results that the Media & Advertising businesses can deliver, which could adversely impact the results of Media & Advertising. See "Item 1 Business Description of Business Media & Advertising."

Membership & Subscriptions

Vacations. Interval's business depends, in significant part, upon the health of the worldwide timeshare and travel industries. Travel expenditures are sensitive to business and personal discretionary spending levels and tend to decline during general economic downturns. Also, inclement weather and/or natural disasters may result in the inability to travel to and vacation in certain regions in which Interval's participating resorts operate, as well as significant damage to participating resorts, which would result in a decrease in timeshare accommodations and related travel. In addition, Interval's business is sensitive to travel health concerns, such as avian flu, as well as safety concerns related to terrorism and/or geopolitical conflicts. Accordingly, downturns or weaknesses in the travel industry, as well as inclement weather, natural disasters, health concerns, terrorism and/or geopolitical conflicts could adversely affect IAC's business, financial condition and results of operations.

Marketing The failure of IAC businesses to attract and retain customers in a cost-effective manner could adversely affect IAC's business, financial condition and results of operations.

The long-term success of IAC depends on the continued ability of its businesses to attract new visitors to their respective websites and other distribution channels, convert these visitors into paying customers and capture repeat business from existing customers. All of these initiatives involve the expenditure of considerable money and resources for advertising, marketing, infrastructure and other related efforts, including, in the case of some IAC businesses, affiliate programs, which are more cost-effective than traditional marketing and advertising efforts. IAC businesses have spent and expect to continue to spend increasing amounts of money on, and devote greater resources to, these initiatives, which may not be successful or cost-effective. In the case of IAC businesses with affiliate programs, if the number of customers being driven to their websites through affiliates programs were to decrease significantly, sales and marketing costs would increase. In addition, we believe that rates for desirable offline and online marketing and advertising are likely to increase in the foreseeable future. The failure of IAC businesses to attract and acquire new, and retain existing, customers in a cost-effective manner could adversely affect IAC's business, financial condition and results of operations.

Changing Customer Requirements and Industry Standards IAC businesses may not be able to adapt quickly enough to changing customer requirements and industry standards.

The e-commerce industry is characterized by evolving industry standards, frequent new service and product introductions and enhancements, and changing customer demands. IAC businesses may not be able to adapt quickly enough and/or in a cost-effective manner to changes in industry standards and customer requirements and preferences, and their failure to do so could adversely affect the business, financial condition and results of operations of IAC. In addition, the continued widespread adoption of new internet or telecommunications technologies and devices or other technological changes could require IAC businesses to modify or adapt their respective services or infrastructures.

For example, the number of individuals who access the internet through devices other than a personal computer, such as personal digital assistants and mobile telephones, has increased dramatically. The lower resolution, functionality and memory associated with these devices could make the use of services provided by IAC businesses through these devices difficult, and alternative services developed for these devices may not be compelling to users. IAC businesses have limited experience to date in operating versions of their respective services developed or optimized for users of alternative devices and it is difficult to predict the problems that they may encounter in doing so. The modification or adaptation of the services or infrastructures of IAC businesses in response to these developments, as well as to the adoption of other new technologies or technological changes, could require substantial expenditures. The failure of IAC businesses to modify or adapt their respective services or infrastructures in response to these trends could render their existing websites, services and proprietary technologies obsolete, which could adversely affect IAC's business, financial condition and results of operations.

Internet Usage and Online Migration IAC's future success depends upon the continued and widespread use and acceptance of the internet as a medium for commerce.

IAC's future success depends on the continued and widespread use and acceptance of the internet as a medium for commerce. While the practice of transacting business online in some of the industries in which IAC businesses operate, such as the retailing industry, is established and continuing to grow, use and acceptance of this practice in some other industries in which IAC businesses operate, such as the lending and real estate industries, are in early stages of development or have only recently begun. A number of factors may inhibit internet use and acceptance by consumers, including general privacy and security concerns regarding their personally identifiable information and activities that diminish their user experience (such as spyware, viruses and spam, among other activities), as well as the acceptance of a new way of conducting business and exchanging information, particularly in the case of

IAC's Lending and Real Estate businesses, where consumers, more so than in other industries in which IAC businesses operate, continue to seek lending and real estate services through traditional offline methods. In addition, IAC businesses with international operations could be adversely impacted if internet usage does not continue to grow, or grows at significantly lower rates than expected, in the various jurisdictions in which these businesses operate or the internet infrastructure in these jurisdictions does not expand quickly enough to meet increased levels of demand. If consumer use and acceptance and growth of online markets does not continue to increase, IAC's business, financial condition and results of operations could be adversely affected.

Acquisitions IAC may experience operational and financial risks in connection with acquisitions. In addition, some of the businesses acquired by IAC may incur significant losses from operations or experience impairment of carrying value.

IAC's future growth may depend, in part, on acquisitions. IAC may experience operational and financial risks in connection with acquisitions. To the extent that IAC grows through acquisitions, it will need to:

- successfully integrate the operations, as well as the accounting, financial controls, management information, technology, human resources and other administrative systems, of acquired businesses with IAC's existing operations and systems;

- retain senior management and other key personnel at acquired businesses; and

- successfully manage acquisition-related strain on the management, operations and financial resources of IAC and/or acquired businesses.

IAC may not be successful in addressing these challenges or any other problems encountered in connection with historical and future acquisitions and the failure to do so could adversely affect IAC's business, financial condition and results of operations. In addition, the anticipated benefits of one or more acquisitions may not be realized and future acquisitions could result in potentially dilutive issuances of equity securities, contingent liabilities or the impairment of goodwill and/or other intangible assets, any of which could adversely affect IAC's business, financial condition and results of operations.

International Presence and Expansion Some IAC businesses operate in international markets in which they have limited experience and are faced with additional risks. IAC businesses may not be able to successfully expand into new, or further into existing, international markets.

Some IAC businesses operate in various jurisdictions abroad and may continue to expand their international presence. Some of these businesses have limited experience, and are faced with additional risks, in the international markets in which they operate. In order to achieve widespread acceptance in the countries and markets in which they have a presence, these businesses must continue to successfully tailor their services to the unique customs and cultures of such countries and markets. Learning the customs and cultures of various countries can be difficult and costly and the failure of these businesses to do so could slow their international growth.

These businesses face, and expect to continue to face, additional risks in the case of their existing and future international operations. These risks include changes in regulatory requirements and limits on its ability to enforce intellectual property rights, exchange rate fluctuations, potential delays in the development of the internet as an advertising and commerce medium in international markets and difficulties in managing operations due to distance, language and cultural differences, including issues associated with establishing management systems and infrastructures, and staffing and managing foreign operations. In addition, for IAC businesses that wish to continue to expand their international presence into new, or further into existing, international markets, their ability to do so will depend, in part, on their ability to identify potential acquisition candidates, joint venture or other partners, and enter into arrangements with these parties on favorable terms. In the case of expansion outside of acquisitions and commercial arrangements with third parties, IAC businesses could face significant barriers to entry in new, and expansion into existing, markets due to, among other concerns, regulatory and legal requirements and competition.

Compliance The failure of IAC businesses to comply with existing laws, rules and regulations, or to obtain required licenses and rights, could adversely affect IAC's business, financial condition and results of operations.

The failure of IAC businesses to comply with existing laws, rules and regulations, or to obtain required licenses or rights, could adversely affect IAC's business, financial condition and results of operations. IAC businesses market and provide a broad range of goods and services through a number of different online and offline channels. As a result, IAC businesses are subject to a wide variety of statutes, rules, regulations, policies and procedures in various jurisdictions in the U.S. and abroad, which are subject to change at any time. IAC businesses with an online component must comply with laws and regulations applicable to the internet and businesses engaged in online commerce, including those regulating the sending of unsolicited, commercial electronic mail. See also "Privacy."

For example, IAC businesses conduct marketing activities via the telephone and/or through online marketing channels, which activities are governed by numerous federal and state regulations, such as the Telemarketing Sales Rule, state telemarketing laws and the Can Spam Act, among others. While IAC believes that the practices of its various businesses have been structured in a manner to ensure compliance with these laws and regulations, there can be no assurances that federal or state regulatory authorities would not take a contrary position. The failure of IAC and/or any of its businesses to comply with these laws and regulations could result in fines and/or proceedings against IAC and/or its businesses by governmental agencies and/or consumers, which could adversely affect IAC's business, financial conditions and results of operations.

Many IAC businesses require licenses from various federal, state and/or local regulatory authorities in order to conduct their respective businesses and operations. For example, HSN must have a broadcast license from the Federal Communications Commission in order to broadcast its programming. In the case of IAC's Lending and Real Estate businesses, most states require licenses to solicit, broker or make loans secured by residential mortgages and other consumer loans to residents of those states, as well as to operate real estate referral and brokerage services. No assurances can be given that any of the licenses or rights currently held by IAC businesses will not be revoked prior to, or will be renewed upon, their expiration. In addition, no assurances can be given that IAC businesses will be granted new licenses or rights for which they may be required to apply from time to time in the future.

Many IAC businesses are also subject to various state, federal and/or local laws, rules and regulations that regulate the amount and nature of fees that may be charged for their products and services and incentives, such as rebates, that may be offered to consumers, as well as the manner in which they may offer, advertise or promote their products or services. For example, in the case of IAC's Lending and Real Estate businesses, federal law, such as the Real Estate Settlement Procedures Act, or RESPA, generally prohibits the payment or receipt of referral fees and fee shares or splits in connection with residential mortgage loan transactions, subject to certain exceptions. The applicability of referral fee and fee sharing prohibitions to lenders, including online exchanges, and real estate services and related initiatives, may have the effect of reducing the types and amounts of fees that may be charged or paid in connection with real estate-secured loan products, including mortgage brokerage, lending and real estate brokerage services. Although IAC believes that its mortgage, lending and real estate referral operations have been structured in such a way so as to comply with RESPA, there can be no assurances that the relevant regulatory agency will not take a contrary position.

In addition, some states have regulations that prohibit real estate brokers from providing consumers with rebates or other incentives in connection with real estate transactions. Additional states could promulgate similar regulations or interpret existing regulations in a way that limits the ability of online exchanges to offer consumer incentives in connection with real estate services, thereby limiting the attractiveness of the services offered by IAC's Real Estate businesses to consumers.

Additional federal, state and in some instances, local, laws regulate residential lending and real estate brokerage activities. These laws generally regulate the manner in which lending, lending-related and real estate brokerage services are made available, including advertising and other consumer disclosures, payments for services and record keeping requirements, and include the Fair Credit Reporting Act, the Truth in Lending Act, the Equal Credit Opportunity Act and the Fair Housing Act. Although IAC believes that its mortgage and real estate referral operations have been structured in such a way so as to generally comply with these federal laws, there can be no assurances that the relevant regulatory agency will not take a contrary position.

Federal, state and in some instances, local, laws also prohibit predatory lending practices, unfair and deceptive trade practices and require companies to adopt appropriate policies and practices to protect consumer privacy. The failure of IAC's Lending and Real Estate business to comply with applicable laws and regulatory requirements may result in, among other things, revocation of required licenses or registrations, loss of approval status, termination of contracts without compensation, administrative enforcement actions and fines, class action lawsuits, cease and desist orders and civil and criminal liability, any of which could adversely affect the business, financial condition and results of operations of these businesses.

Changing Laws, Rules and Regulations   Changing laws, rules and regulations and legal uncertainties could adversely affect IAC's business, financial condition and results of operations.

Unfavorable changes in existing, or the promulgation of new, laws, rules and regulations applicable to IAC and its businesses, including those relating to the internet, online commerce, the regulation of adware and other downloadable applications, cable, broadcast, broadband and telephony services, consumer protection and privacy, including requirements for criminal background checks for subscribers to online dating services, and sales, use, value-added and other taxes, could decrease demand for products and services, increase costs and/or subject IAC to additional liabilities, which could adversely affect its business. There is, and will likely continue to be, an increasing number of laws and regulations pertaining to the internet, online commerce and cable, broadcast, broadband and telephony services, which may relate to carriage and distribution of online content over broadband networks, liability for information retrieved from or transmitted over the internet, user privacy, taxation and the quality of products and services.

The advent of digital cable has resulted in increased channel capacity, which has encouraged, and could continue to encourage, competitors to enter the marketplace. This development, coupled with changing laws, rules and regulations and legal uncertainties, could adversely affect the ability of HSN to secure channel capacity and placement for the HSN television network. For example, the Federal Communications Commission is considering the adoption of modified cable television ownership rules and limits that could result in individual cable operators acquiring control over larger segments of U.S. cable customers and channels, in which case, HSN could be required to negotiate with fewer cable operators that would control larger portions of the market for the terms of and opportunity to secure channel capacity and placement. No assurances can be given that HSN will be able to secure channel capacity and/or placement for the HSN television network on attractive terms and its failure to do so could adversely affect IAC's business, financial condition and results of operations.

Broadband network operators are no longer subject to common carrier regulations, which prohibit the discriminatory operation of communications networks. Broadband network discrimination involves the interference by broadband network operators with customer access to, and the distribution of content and provision of services over, the internet, all of which involve the access and use of their networks. Interference with customer access to the internet could result in the loss of existing customers and impair the ability of IAC's various businesses to attract new customers. In addition, if broadband network operators were to charge third parties for distribution and carriage over their networks, this would result in increased costs for IAC's various businesses, which could adversely affect IAC's business, financial condition and results of operations. The U.S. Congress is currently considering legislation to prohibit broadband network discrimination.

In addition, the application of various domestic and international sales, use, value-added and other tax laws, rules and regulations to the historical and new products and services of IAC is subject to interpretation by the applicable taxing authorities. While IAC believes that it is compliant with these tax provisions, there can be no assurances that taxing authorities will not take a contrary position, or that such positions will not adversely affect IAC's business, financial condition and results of operations.

Lastly, some IAC businesses have structured their business, operations and relationships with third parties in ways to ensure compliance with various state, federal and/or local laws, rules and regulations that regulate the amount and nature of fees that may be charged for their products or services. For example, Ticketmaster has structured its business, operations and client relationships in ways to ensure compliance with certain state and local regulations in several states that establish maximum charges on sales of tickets. Other legislation that could further regulate convenience charges, order-processing, transaction and other fees is introduced from time to time in federal, state and local legislative bodies in the United States and abroad. Ticketmaster is also advocating changes in various state and local laws to make them less restrictive so that Ticketmaster can participate more fully in making tickets available for resale. Changes in existing, or the promulgation of new, laws, rules and regulations of this nature could require Ticketmaster to change certain aspects of its business, operations and client relationships to ensure compliance. Ticketmaster is unable to predict whether any such legislation will be adopted and, if so, the effect on its business and results of operations.

Similarly, HSN is continually engaged in the sale of third party products. While IAC believes that HSN has structured its business, operations and vendor relationships in ways to ensure compliance with federal, state and local laws, there is no guarantee that HSN would not be held liable for the product claims or other activities that occur during the HSN broadcasts.

Privacy The processing, storage, use and disclosure of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights.

In the processing of consumer transactions, IAC businesses receive, transmit and store a large volume of personally identifiable information, the sharing, use, disclosure and protection of which is governed by the respective privacy and data security policies maintained by each of these businesses. Moreover, there are federal, state and international laws regarding privacy and the sharing, use, disclosure and protection of user data, and personally identifiable information is increasingly subject to legislation and regulations in numerous jurisdictions around the world, the intent of which is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. There are currently pending several bills in the U.S. Congress, which if passed could impose more onerous requirements on IAC businesses regarding the manner in which certain personally identifiable information will need to be stored. IAC businesses could be adversely affected if legislation or regulations are expanded to require changes in their business practices or privacy policies, or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect their business, financial condition and results of operations. As privacy and data protection have become more sensitive issues, IAC businesses may also become exposed to potential liabilities as a result of differing views on the privacy of consumer data collected by these businesses. The failure of IAC and/or any of its businesses to comply with applicable privacy policies or federal, state or similar international laws and regulations could result in fines and/or proceedings against IAC and/or its businesses by governmental agencies and/or consumers, which could adversely affect IAC's business, financial condition and results of operations. The failure of IAC and/or its businesses to properly maintain the security of data they collect and maintain could also result in fines and/or proceedings against IAC and/or its businesses by governmental agencies and/or in private actions by consumers with potential adverse consequences.

Intellectual Property IAC and its businesses may fail to adequately protect their intellectual property rights or may be accused of infringing intellectual property rights of third parties.

IAC and its businesses may fail to adequately protect their intellectual property rights or may be accused of infringing intellectual property rights of third parties. IAC and its businesses regard their intellectual property rights, including their patents, service marks, trademarks and domain names, copyrights, trade secrets and similar intellectual property, as critical to IAC's success. IAC businesses also rely heavily upon software codes, informational databases and other components that make up their products and services.

IAC and its businesses rely on a combination of laws and contractual restrictions with employees, customers, suppliers, affiliates and others to establish and protect these proprietary rights. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use trade secret or copyrighted intellectual property of IAC or any of its businesses without authorization which, if discovered, might require the uncertainty of legal action to correct. In addition, no assurances can be given that third parties will not independently and lawfully develop substantially similar intellectual properties.

IAC and its businesses have generally registered and continue to apply to register, or secure by contract when appropriate, their respective trademarks and service marks as they are developed and used, and reserve and register domain names as they deem appropriate. While IAC and its businesses vigorously protect their respective trademarks, service marks and domain names, effective trademark protection may not be available or may not be sought in every country in which products and services are made available, and contractual disputes may affect the use of marks governed by private contract. Similarly, not every variation of a domain name may be available or be registered, even if available. The failure of IAC and its businesses to protect their intellectual property rights in a meaningful manner or challenges to related contractual rights could result in erosion of brand names and limit the ability of IAC and its businesses to control marketing on or through the internet using their various domain names, which could adversely affect IAC's business, financial condition and results of operations.

Some IAC businesses have been granted United States patents and/or have patent applications pending with the United States Patent and Trademark Office for various proprietary technologies and other inventions. IAC and its businesses generally seek to apply for patents or for other appropriate statutory protection when they develop valuable new or improved proprietary technologies or inventions are identified, and will continue to consider the appropriateness of filing for patents to protect future proprietary technologies and inventions as circumstances may warrant. The status of any patent involves complex legal and factual questions, and the breadth of claims allowed is uncertain. Accordingly, no assurances can be given that any patent application filed by IAC and/or its businesses will result in a patent being issued, or that any existing or future patents will afford adequate protection against competitors with similar technology. In addition, no assurances can be given that third parties will not create new products or methods that achieve similar result without infringing upon patents owned by IAC and its businesses.

From time to time, IAC and its businesses are subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of the trademarks, copyrights, patents and other intellectual property rights of third parties. In addition, litigation may be necessary in the future to enforce the intellectual property rights of IAC and its businesses, protect their respective trade secrets or to determine the validity and scope of proprietary rights claimed by others. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect IAC's business, financial condition and results of operations. Patent litigation tends to be particularly protracted and expensive.

Maintenance of Systems and Infrastructure The success of IAC depends, in part, on the integrity of its systems and infrastructure. System interruption and the lack of integration and redundancy in IAC's information systems may affect its businesses.

The success of IAC depends, in part, on its ability to maintain the integrity of its systems and infrastructure. System interruption and the lack of integration and redundancy in the information systems of IAC businesses may adversely affect these businesses. IAC businesses may experience occasional system interruptions that make some or all of their respective systems or data unavailable or prevent these businesses from efficiently fulfilling orders or providing services. IAC businesses also rely on affiliate and third party computer systems and service providers to facilitate and process a portion of their transactions. Any interruptions, outages or delays in the systems of IAC, its affiliates and/or third party providers, or a deterioration in the performance of these systems, could impair the ability of IAC businesses to process transactions and the related quality of service. Fire, flood, power loss, telecommunications failure, earthquakes, acts of war or terrorism, acts of God and similar events or disruptions may damage or interrupt computer or communications systems at any time. Any of these events could cause system interruption, delays and loss of critical data, and could prevent IAC businesses from providing services to third parties. While IAC businesses have backup systems for certain aspects of their operations, the systems are not fully redundant and disaster recovery planning is not sufficient for all eventualities. In addition, IAC and its businesses may not have adequate insurance coverage to compensate for losses from a major interruption. If any of these adverse events were to occur, it could damage the reputation of IAC and its businesses and be costly to remedy.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

IAC believes that the facilities for its management and operations are generally adequate for its current and near-term future needs. IAC's facilities, most of which are leased by IAC's domestic and international businesses in various cities and locations in the United States and jurisdictions abroad, generally consist of executive and administrative offices, fulfillment facilities, warehouses, operations centers, call centers, data centers, television production and broadcast facilities and sales offices.

All of IAC's leases are at prevailing market, or "most favorable," rates. IAC believes that the duration of each lease is adequate. IAC believes that its principal properties, whether owned or leased, are currently adequate for the purposes for which they are used and are suitably maintained for these purposes. IAC does not anticipate any future problems renewing or obtaining suitable leases for its principal properties.

IAC leases approximately 45,550 square feet for its principal executive offices at Carnegie Hall Tower, 152 West 57th Street, New York, New York, which lease expires on April 30, 2007. As of the date of this report, the construction of IAC's new corporate headquarters at 527-37 West 18th Street and 540 West 19th Street, New York, New York, which is approximately 202,500 square feet, had been substantially completed.

IAC owns two office buildings in West Hollywood, California, one of which is approximately 72,000 square feet and houses Ticketmaster's corporate headquarters and the other of which is approximately 48,000 square feet and houses offices for certain IAC businesses. HSN owns warehouse facilities and an approximately 480,000 square foot facility in Florida that houses television production and broadcast facilities, administrative offices and training facilities, as well as fulfillment centers in California, Tennessee and Virginia.

Item 3. ***Legal Proceedings***

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

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

Securities Class Action Litigation against IAC

As previously disclosed in a number of the Company's filings on SEC Forms 10-K and 10-Q, beginning on September 20, 2004, twelve purported shareholder class actions were commenced in the United States District Court for the Southern District of New York against IAC and certain of its officers and directors, alleging violations of the federal securities laws. These cases arose out of the Company's August 4, 2004 announcement of its earnings for the second quarter of 2004 and generally alleged that the value of the Company's stock was artificially inflated by pre-announcement statements about its financial results and forecasts that were false and misleading due to the defendants' alleged failure to disclose various problems faced by the Company's travel businesses (which in 2005 were spun off into a separate public company, Expedia, Inc.). On December 20, 2004, the district court consolidated the twelve lawsuits, appointed co-lead plaintiffs, and designated co-lead plaintiffs' counsel. *See In re IAC/InterActiveCorp Securities Litigation*, No. 04-CV-7447 (S.D.N.Y.).

On October 18, 2004, a related shareholder derivative action, *Stuart Garber, Derivatively on Behalf of IAC/InterActiveCorp v. Barry Diller et al.*, No. 04-603416, was commenced in the Supreme Court of the State of New York (New York County) against certain of IAC's officers and directors. On November 15, 2004, another related shareholder derivative action, *Lisa Butler, Derivatively on Behalf of IAC/InterActiveCorp v. Barry Diller et al.*, No. 04-CV-9067, was filed in the United States District Court for the Southern District of New York against certain of IAC's current and former directors. On January 24, 2005, the federal district court consolidated the *Butler* case with the securities class action for pre-trial purposes only. On February 2, 2005, the defendants in the *Garber* case removed it from New York state court to the United States District Court for the Southern District of New York. On April 11, 2005, the district court issued a similar consolidation order in respect of the *Garber* case.

On May 20, 2005, the plaintiffs in the federal securities class action filed a consolidated amended complaint. Like its twelve predecessors, the amended complaint generally alleges that the value of the Company's stock was artificially inflated by pre-announcement statements about the Company's financial results and forecasts that were false and misleading due to the defendants' alleged failure to disclose various problems faced by the Company's then travel businesses. The plaintiffs seek to represent a class of shareholders who purchased IAC common stock between March 31, 2003 and August 3, 2004. The defendants are IAC and fourteen current or former officers or directors of the Company or its former Expedia travel business. The complaint purports to assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, as well as Sections 11 and 15 of the Securities Act of 1933, and seeks damages in an unspecified amount.

On July 5, 2005, the plaintiffs in the related shareholder suits filed a consolidated shareholder derivative complaint. The defendants are IAC (as a nominal defendant) and sixteen current or former officers or directors of the Company or its former Expedia travel business. The complaint, which is based upon factual allegations similar to those in the securities class action, purports to assert claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, violation of Section 14(a) of the Exchange Act, and contribution and indemnification. The complaint seeks an order voiding the election of the Company's current Board of Directors, as well as damages in an unspecified amount, various forms of equitable relief, restitution, and disgorgement of remuneration received by the individual defendants from the Company.

On September 15, 2005, IAC and the other defendants filed motions to dismiss both the securities class action and the shareholder derivative suits. On November 30, 2005, the plaintiffs filed their opposition to the motions. On January 6, 2006, the defendants filed reply papers in further support of the motions. On October 12, 2006, the court heard oral argument on the motions. Both motions to dismiss remain pending.

The Company believes that the claims in the class action and the derivative suits lack merit and will continue to defend vigorously against them.

Consumer Class Action Litigation against Ticketmaster

Illinois. As previously disclosed in a number of the Company's filings on SEC Forms 10-K and 10-Q, on November 22, 2002, a purported nationwide class action was filed in Illinois state court, challenging Ticketmaster's charges to customers for UPS ticket delivery. *See Mitchell B. Zaveduk, Individually and as the Representative of a Class of Similarly Situated Persons v. Ticketmaster et al.*, No. 02-CH-21148 (Circuit Court, Cook County). The lawsuit alleges in essence that it is unlawful for Ticketmaster not to disclose that the fee it charges to customers to have their tickets delivered by UPS contains a profit component. The complaint asserted claims for violation of the Illinois Consumer Fraud and Deceptive Business Practices Act and for unjust enrichment and sought restitution to the purported class of the difference between what Ticketmaster charged for UPS delivery and what it paid for that service.

On May 20, 2003, the court granted Ticketmaster's motion to dismiss the common-law claim for unjust enrichment but declined to dismiss the claim under the Illinois statute. On July 7, 2004, the plaintiff filed an amended complaint, adding claims for breach of contract and for violation of the California Consumers' Legal Remedies Act and Section 17200 of the California Business and Professions Code. On August 13, 2004, the court granted Ticketmaster's motion to dismiss the claim under the California Consumers' Legal Remedies Act. On October 28, 2004, the court granted Ticketmaster's motion to dismiss the claim for breach of contract but declined again to dismiss the claim under the Illinois statute. On June 16, 2005, the court denied Ticketmaster's motions for summary judgment on the Illinois statutory claim and to stay the remaining California statutory claim.

On November 9, 2006, the plaintiff filed a motion for class certification, which Ticketmaster opposed on December 14, 2006. On February 2, 2007, the court, after hearing oral argument, issued an order denying the motion for class certification.

California. As previously disclosed in a number of the Company's filings on SEC Forms 10-K and 10-Q, on October 21, 2003, a purported representative action was filed in California state court, challenging Ticketmaster's charges to online customers for UPS ticket delivery. *See Curt Schlessinger et al. v. Ticketmaster*, No. BC304565 (Superior Court, Los Angeles County). Similar to the Illinois case, this lawsuit alleges in essence that it is unlawful for Ticketmaster not to disclose on its website that the fee it charges to online customers to have their tickets delivered by UPS contains a profit component. The complaint asserted a claim for violation of Section 17200 of the California Business and Professions Code and, like the Illinois case, sought restitution or disgorgement of the difference between the total UPS-delivery fees charged by Ticketmaster in connection with online ticket sales and the amount it paid to UPS for that service.

On January 9, 2004, the court denied Ticketmaster's motion to stay the case in favor of the earlier-filed Illinois case. On December 31, 2004, the court denied Ticketmaster's motion for summary judgment. On April 1, 2005, the court denied the plaintiffs' motion for leave to amend their complaint to include UPS-delivery fees charged in connection with ticket orders placed by telephone. Citing Proposition 64, a recently approved California ballot initiative that outlawed so-called "representative" actions brought on behalf of the general public, the court ruled that since the named plaintiffs did not order their tickets by telephone, they lacked standing to assert a claim based on telephone ticket sales. The plaintiffs were granted leave to file an amended complaint that would survive application of Proposition 64.

On August 31, 2005, the plaintiffs filed an amended class-action and representative-action complaint alleging (i) as before, that Ticketmaster's website disclosures in respect of its charges for UPS ticket delivery violate Section 17200 of the California Business and Professions Code, and (ii) for the first time, that Ticketmaster's website disclosures in respect of its ticket order-processing fees constitute false advertising in violation of Section 17500 of the California Business and Professions Code. On this latter claim, the amended complaint seeks restitution or disgorgement of the entire amount of order-processing fees charged by Ticketmaster during the applicable statute-of-limitations period.

On September 1, 2005, in light of the newly pleaded claim based upon order-processing fees, Ticketmaster removed the case to federal court pursuant to the recently enacted federal Class Action Fairness Act. *See Curt Schlessinger et al. v. Ticketmaster*, No. 05-CV-6515 (U.S. District Court, Central District of California). On October 3, 2005, the plaintiffs filed a motion to remand the case to state court, which Ticketmaster opposed. On March 23, 2006, the federal district court issued an order granting the plaintiffs' motion to remand the case to state court. On April 4, 2006, Ticketmaster filed a petition for leave to appeal the district court's order to the United States Court of Appeals for the Ninth Circuit, which the plaintiffs opposed. On May 25, 2006, the federal court of appeals issued an order denying Ticketmaster's petition; as a result, the case was remanded to state court.

On August 14, 2006, the plaintiffs filed a motion for class certification, which Ticketmaster opposed. On September 25, 2006, Ticketmaster filed a motion for judgment on the pleadings, which the plaintiffs opposed. On November 21, 2006, Ticketmaster requested that the court stay the case pending the California Supreme Court's decisions in two cases (*In re Tobacco II Cases*, 142 Cal. App. 4^{th} 891, and *Pfizer Inc. v. Superior Court (Galfano)*, 141 Cal. App. 4^{th} 290) that present issues concerning the interpretation of Proposition 64 that are directly pertinent to both of the pending motions. The plaintiffs opposed Ticketmaster's request. On November 29, 2006, the court ordered that the case be stayed.

The Company believes that the claims in both the Illinois and the California lawsuits lack merit and will continue to defend vigorously against them.

Item 4. ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of any of the Company's security holders during the fourth quarter of 2006.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market for Registrant's Common Equity and Related Stockholder Matters

IAC common stock is quoted on The Nasdaq Stock Market, or "NASDAQ," under the ticker symbol "IACI." There is no established public trading market for IAC Class B common stock. The table below sets forth, for the calendar periods indicated, the high and low sales prices per share for IAC common stock as reported on NASDAQ.

	High	Low
Year Ended December 31, 2007		
First Quarter (through February 28, 2007)	$ 40.99	$ 36.87
Year Ended December 31, 2006		
Fourth Quarter	$ 38.66	$ 28.25
Third Quarter	29.28	23.62
Second Quarter	31.12	23.54
First Quarter	31.50	26.95
Year Ended December 31, 2005		
Fourth Quarter	$ 29.36	$ 24.71
Third Quarter(1)	30.82	23.49
Second Quarter(1)	29.17	23.25
First Quarter(1)	30.95	23.32

(1) High and low sales prices per share of IAC common stock for dates prior to August 9, 2005 have been adjusted to reflect the impact of the one-for-two reverse stock split of IAC's common stock and Class B common stock and the Spin-Off, both of which were completed on August 9, 2005. The adjusted stock prices were determined using the historical prices (pre-adjustment) divided by 0.90036, which factor is equal to the value of $25.30 (the closing price on August 8, 2005 of IAC common stock) divided by $28.10 (the closing price on August 8, 2005 of IAC common stock trading on a when issued basis).

As of February 28, 2007, there were approximately 1,700 holders of record of the Company's common stock and the closing price of IAC common stock was $39.20. Because many of the outstanding shares of IAC common stock are held by brokers and other institutions on behalf of shareholders, IAC is not able to estimate the total number of beneficial shareholders represented by these record holders.

As of February 28, 2007, there were six holders of record of the Company's Class B common stock. IAC has paid no cash dividends on its common stock or Class B common stock to date and does not anticipate paying cash dividends on its common stock or Class B common stock in the immediate future.

During the quarter ended December 31, 2006, the Company did not issue or sell any shares of its common stock or other equity securities pursuant to unregistered transactions in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

The following table reports purchases by the Company of its common stock on a trade date basis during the quarter ended December 31, 2006:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share(1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	(d) Maximum Number of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs(3)(4)
October 2006				68,839,293
November 2006				68,839,293
December 2006	2,438,944	37.11	2,438,944	66,400,349
Total	2,438,944	37.11	2,438,944	66,400,349

(1) Reflects the weighted average price paid per share of IAC common stock.

(2) Reflects repurchases made pursuant to a repurchase authorization previously announced in February 2006.

(3) On October 31, 2006, the Company announced that its Board of Directors authorized the repurchase of up to 60 million shares in addition to the approximately 8.8 million shares then remaining under the February 2006 authorization. IAC may purchase shares pursuant to the October 2006 authorization over an indefinite period of time, depending on those factors IAC management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

(4) IAC repurchased an additional 7.6 million shares of IAC common stock from January 1, 2007 to February 2, 2007 for aggregate consideration of $288.2 million. Approximately 58.8 million shares remained under the February 2006 authorization as of February 2, 2007.

Item 6. ***Selected Financial Data***

The following table presents selected historical financial data of IAC for each of the years in the five-year period ended December 31, 2006. This data was derived from IAC's audited consolidated financial statements and reflects the operations and financial position of IAC at the dates and for the periods indicated. The information in this table should be read in conjunction with the financial statements and accompanying notes and other financial data pertaining to IAC included herein.

	Year Ended December 31,				
	2006(1)	**2005(2)(3)**	**2004(4)(5)**	**2003(6)**	**2002(7)(8)**
	(Dollars in Thousands, Except Per Share Data)				
Statement of Operations Data:					
Net revenue	$ 6,277,638	$ 5,416,506	$ 3,911,050	$ 3,547,007	$ 2,745,097
Operating income (loss)	253,371	340,978	160,605	136,709	(4,044)
Earnings (loss) from continuing operations before cumulative effect of accounting change	174,789	596,356	227,998	9,812	(39,144)
Earnings before cumulative effect of accounting change	192,635	876,150	164,861	167,396	2,414,492
Net earnings available to common shareholders	192,635	868,212	151,808	154,341	1,941,344
Basic earnings (loss) per common share from continuing operations before cumulative effect of accounting change available to common shareholders(9)	0.57	1.79	0.62	(0.01)	(0.24)
Diluted earnings (loss) per common share from continuing operations before cumulative effect of accounting change available to common shareholders(9)	0.55	1.68	0.58	(0.01)	(0.24)
Basic earnings per common share before cumulative effect of accounting change available to common shareholders(9)	0.63	2.64	0.44	0.51	11.27
Diluted earnings per common share before cumulative effect of accounting change available to common shareholders(9)	0.60	2.46	0.41	0.51	11.27
Basic earnings per common share available to common shareholders(9)	0.63	2.64	0.44	0.51	9.11
Diluted earnings per common share available to common shareholders(9)	0.60	2.46	0.41	0.51	9.11
Balance Sheet Data (end of period):					
Working capital	$ 1,559,148	$ 1,936,188	$ 2,395,397	$ 2,700,604	$ 3,445,015
Total assets	13,194,423	13,917,765	22,398,865	21,568,455	15,640,859
Long-term obligations, net of current maturities	857,103	959,410	796,715	1,117,826	1,211,145
Minority interest	24,881	5,514	20,639	(4,505)	461,538
Shareholders' equity	8,768,993	9,230,828	14,605,304	14,415,585	7,931,463
Other Data:					
Net cash provided by (used in):					
Operating activities attributable to continuing operations	$ 814,342	$ (82,498)	$ 473,069	$ 595,901	$ 324,124
Investing activities attributable to continuing operations	487,403	2,104,029	(1,091,300)	(1,051,754)	707,183
Financing activities attributable to continuing operations	(893,211)	(2,703,186)	(259,775)	(525,273)	611,462
Discontinued operations	700	696,185	1,112,577	(167,698)	(51,573)
Effect of exchange rate changes	31,826	(27,148)	5,510	14,588	10,481

(1) Net earnings available to common shareholders includes an impairment charge of $214.5 million related to a write-down of Discounts' goodwill and intangible assets that resulted from the Company's annual impairment review under Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets" ("SFAS No. 142"). Net earnings available to common shareholders also includes an

after-tax gain of $9.6 million related to the sale of PRC, IAC's Teleservices subsidiary. The results of PRC have been presented as discontinued operations for all periods presented.

(2)

Includes the results of Cornerstone Brands, Inc. and IAC Search & Media, Inc. (formerly, Ask Jeeves, Inc.) since their acquisitions by IAC on April 1, 2005 and July 19, 2005, respectively.

(3)

Net earnings available to common shareholders includes an after-tax gain of $322.1 million related to the sale of IAC's common and preferred interests in VUE to NBC Universal, an after-tax gain of $70.2 million related to the sale of EUVÍA and an after-tax increase in non-cash compensation expense of $49.0 million related to the treatment of vested stock options in connection with the Spin-Off. Net earnings available to common shareholders also includes an after-tax reduction in non-cash compensation expense of $3.5 million included in earnings from continuing operations and $22.0 million included in discontinued operations related to the cumulative effect of a change in IAC's estimate related to the number of stock-based awards that were expected to vest.

(4)

Includes the results of TripAdvisor, ServiceMagic and Home Loan Center since their acquisitions by IAC on April 27, 2004, September 1, 2004 and December 14, 2004, respectively. The results of TripAdvisor have been presented as discontinued operations for all periods presented.

(5)

Net earnings available to common shareholders includes an impairment charge of $184.8 million related to a write-down of Teleservices goodwill that resulted from the Company's annual impairment review under SFAS No. 142.

(6)

Includes the results of Entertainment Publications, Inc., LendingTree, LLC and Hotwire, Inc. since their acquisitions by IAC on March 25, 2003, August 8, 2003 and November 5, 2003, respectively. The results of Hotwire, Inc. have been presented as discontinued operations for all periods presented.

(7)

In connection with IAC's acquisition of a controlling interest in Expedia.com, IAC issued approximately 13.1 million shares of Series A Cumulative Convertible Preferred Stock with a $50 face value ($656 million aggregate value) and a 1.99% annual dividend rate and which were convertible at any time into IAC common stock at an initial conversion price of $67.50. In connection with the Spin-Off and the one-for-two reverse stock split, all but 846 shares of the preferred stock were redeemed for an aggregate amount of $655.7 million, and the remaining shares of preferred stock were exchanged for a like number of Series B Cumulative Convertible Preferred Stock with a face value of $27.77 and a 1.99% annual dividend rate and which are convertible at any time into IAC common stock at an initial conversion price of $37.48 and shares of Expedia preferred stock.

(8)

Net earnings available to common shareholders includes an after-tax gain of $2.4 billion related to the contribution of the USA Entertainment Group to VUE and an after-tax expense of $461.4 million related to the cumulative effect of adoption as of January 1, 2002 of SFAS No. 142. Also includes the results of Interval since its acquisition by IAC on September 24, 2002.

(9)

On August 9, 2005, IAC effected a one-for-two reverse stock split of its common stock and its Class B common stock. Accordingly, all prior period earnings (loss) per common share data and shares outstanding were adjusted to reflect the one-for-two-reverse stock split.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

MANAGEMENT OVERVIEW

IAC operates leading and diversified businesses in sectors being transformed by the internet, online and offline...our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. Our operating businesses provide products and services through a diversified portfolio of specialized and global brands and are organized into the following sectors:

- Retailing, which includes the U.S. and International reporting segments;
- Services, which includes the Ticketing, Lending, Real Estate and Home Services reporting segments;
- Media & Advertising; and
- Membership & Subscriptions, which includes the Vacations, Personals and Discounts reporting segments.

IAC businesses enable billions of dollars of consumer-direct transactions and advertising for products and services via interactive distribution channels. All references to "IAC," the "Company" "we," "our" or "us" in this report are to IAC/InterActiveCorp.

On August 9, 2005, IAC completed the separation of its travel and travel-related businesses and investments (other than Interval and TV Travel Shop) into an independent public company. We refer to this transaction as the "Spin-Off" and to the new company that holds IAC's former travel and travel-related businesses as "Expedia." Immediately prior to the Spin-Off, IAC effected a one-for-two reverse stock split.

During the second quarter of 2005, the Company sold its 48.6% ownership in EUVÍA and TV Travel Shop ceased operations. During the second quarter of 2006, Quiz TV Limited, which was previously reported in our Emerging Businesses group, ceased operations. Additionally, during the fourth quarter of 2006, PRC, IAC's Teleservices subsidiary, was sold and iBuy, which was also previously reported in IAC's Emerging Businesses group, was classified as held for sale.

Accordingly, discontinued operations in the accompanying consolidated statements of operations and cash flows include Expedia through August 8, 2005, EUVÍA through June 2, 2005 and PRC through November 28, 2006. TV Travel Shop, Quiz TV Limited and iBuy are presented as discontinued operations in the accompanying consolidated balance sheets and consolidated statements of operations and cash flows for all periods presented. PRC is presented as a discontinued operation in the accompanying consolidated balance sheet at December 31, 2005.

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

Amortization (as defined in IAC's Principles of Financial Reporting) for the years ended December 31, 2006, 2005 and 2004 (rounding differences may occur):

	Years ended December 31,					
	2006	Percentage of total	2005	Percentage of total	2004	Percentage of total
	(Dollars in millions)					
Revenue:						
Retailing	$ 3,291.6	52%	$ 3,050.9	56%	$ 2,247.9	57%
Services	1,634.7	26%	1,416.5	26%	964.9	25%
Media & Advertising	544.2	9%	213.5	4%	30.5	1%
Membership & Subscriptions	805.5	13%	739.8	14%	671.5	17%
Emerging Businesses	7.5	0%	0.9	0%		0%
Intersegment eliminations	(6.0)	0%	(5.1)	0%	(3.7)	0%
Total	$ 6,277.6	100%	$ 5,416.5	100%	$ 3,911.0	100%

	Years ended December 31,					
	2006	Percentage of total	2005	Percentage of total	2004	Percentage of total
	(Dollars in millions)					
Operating Income (Loss):						
Retailing	$ 231.7	91%	$ 221.1	65%	$ 144.7	90%
Services	269.4	106%	224.6	66%	128.1	80%
Media & Advertising	(6.0)	(2)%	7.7	2%	(47.1)	(29)%
Membership & Subscriptions	(47.2)	(19)%	140.8	41%	97.9	61%
Emerging Businesses	(21.0)	(8)%	(12.7)	(4)%	(8.4)	(5)%
Corporate and other	(173.4)	(68)%	(240.6)	(71)%	(154.6)	(96)%
Total	$ 253.4	100%	$ 341.0	100%	$ 160.6	100%

	Years ended December 31,					
	2006	Percentage of total	2005	Percentage of total	2004	Percentage of total
	(Dollars in millions)					
Operating Income Before Amortization:						
Retailing	$ 273.3	36%	$ 282.3	42%	$ 199.0	48%
Services	322.9	43%	293.9	44%	186.0	45%
Media & Advertising	58.3	8%	30.5	5%	(13.3)	(3)%
Membership & Subscriptions	202.0	27%	176.2	26%	139.8	33%
Emerging Businesses	(15.9)	(2)%	(12.1)	(2)%	(4.5)	(1)%
Corporate and other	(85.4)	(11)%	(105.7)	(16)%	(89.4)	(21)%
Total	$ 755.3	100%	$ 665.0	100%	$ 417.6	100%

Sources of Revenue

For the years ended December 31, 2006, 2005 and 2004, the Retailing and Services sectors were our largest financial contributors. In Retailing, the majority of our revenue, operating income and Operating Income Before Amortization are derived from the sale of merchandise promoted through our television programming, in catalogs, via telephone and via the internet. We take ownership of and maintain inventory of most of the products we sell through the Retailing sector.

Our Ticketing segment was the largest financial contributor to our Services sector for the years ended December 31, 2006, 2005 and 2004. Our Ticketing business is primarily an agency business that sells tickets for events on behalf of our clients and retains a convenience charge and order processing fee for our services. We sell these tickets through a combination of websites, telephone services and ticket outlets.

The results of our Lending, Real Estate and Home Services segments are also reflected in our Services sector. Our Lending and Real Estate businesses generally are compensated on a fee basis by the lenders, real estate brokers and agents who participate in our online exchange services, with direct lending operations principally deriving revenue from the origination and sale in the secondary markets of various residential real estate loans. The origination and sale of various residential real estate loans occurs under two brand names, LendingTree Loans and Home Loan Center, whose brand names are collectively referred to in this report as "LendingTree Loans." Our Home Services business is generally compensated on a fee basis by home service providers who participate in our services.

Our Media & Advertising businesses offer information and services via the internet and are compensated directly and indirectly by advertisers generally based on performance and volume related measures.

The results of our Vacations, Personals and Discounts segments are reflected in our Membership & Subscriptions sector. The revenue of our Vacations business is generated primarily from fees paid by members in connection with exchange and rental transactions and membership fees. Our Personals business offers subscription membership services. The revenue of our Discounts business is generated from the sale of coupon books, discount offers and merchant promotions, as well as discount memberships and packages in published and online formats.

Channels of Distribution; Marketing Costs

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

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

The cost of acquiring new customers through online and offline third party distribution channels has increased, particularly in the case of online channels as internet commerce continues to grow and competition in the segments in which IAC's businesses operate increases. Also, we continue to increase emphasis on retaining current customers. As a result, we expect sales and marketing expense as a percentage of revenue to continue to increase. While sales and marketing expense as a percentage of revenue increased to approximately 21% in 2006 from approximately 19% in 2005 and 17% in 2004, Operating Income Before Amortization margin has remained relatively flat at 12% in 2006 and 2005 from 11% in 2004.

Access to Supply

Our various businesses provide supplier partners with important customer acquisition channels and we believe that the ability of our supplier partners to reach a large qualified audience through our services is a significant benefit. Many of our businesses, including our Retailing, Lending and Real

Estate businesses, offer our customers the choice of multiple suppliers in one setting. While we aim to build and maintain strong relationships with our supplier partners, we may not succeed in these efforts and there is always the risk that certain supplier partners may not make their products and services available to us in the future, including suppliers of merchandise sold through our Retailing business, parties for whom we sell tickets through our Ticketing business, providers that participate in various services offered through our Lending and Real Estate businesses, and advertisers on the businesses within our Media & Advertising sector.

International Operations

We continue to seek to expand the presence of certain of our brands and businesses abroad, particularly in Europe, and to a lesser extent in Asia, given the large consumer marketplace for the goods and services that our brands and businesses offer. Although newer foreign markets generally lag the U.S. in online adoption, we believe they generally exhibit similar characteristics of the U.S. in regards to customer acceptance of an online marketplace. As a percentage of total IAC revenue (which excludes revenue related to discontinued operations), international operations represented approximately 14% in both 2006 and 2005, and 16% in 2004. International revenue grew approximately 12% in 2006 from 2005, and the flat international revenue as a percentage of total IAC revenue is due to domestic revenue growing at an even faster rate during this time period.

Economic and Other Trends and Events; Industry Specific Factors

Most of IAC's businesses are sensitive to the rate at which the purchase of products and services migrate online, as online transactions are generally processed with little or no incremental cost as compared to offline sales, thereby favorably impacting results. Historically, revenues have generally been more meaningfully impacted by the rate of online migration than by the rate at which the related industry grew. However, as our businesses have become larger, we are increasingly exposed to industry trends. See "Item 1A-Risk Factors" for further discussion on trends in the various industries in which our businesses operate.

Results of Operations for the Years Ended December 31, 2006, 2005 and 2004

IAC Consolidated Results

Revenue

Revenue in 2006 increased $861.1 million, or 16%, from 2005 primarily as a result of revenue increases of $330.8 million, or 155%, from the Media & Advertising sector, $240.7 million, or 8%, from the Retailing sector, $218.2 million, or 15%, from the Services sector and $65.7 million, or 9%, from the Membership & Subscriptions sector. The revenue growth from the Media & Advertising sector was driven primarily by the acquisition of IAC Search & Media on July 19, 2005. The increase from the Retailing sector was driven primarily by the acquisitions of Cornerstone Brands on April 1, 2005 and Shoebuy on February 3, 2006, partially offset by lower sales at Retailing International. Revenue at HSN was relatively flat in 2006. The growth in the Services sector was driven by higher domestic concert ticket sales and continued international strength at our Ticketing segment as well as growth at the Lending segment. The contribution from the Membership & Subscriptions sector benefited from worldwide growth in subscribers of 7% at Personals.

Revenue in 2005 increased $1.5 billion, or 38%, from 2004 as a result of revenue increases of $803.0 million, or 36%, from the Retailing sector, $451.6 million, or 47%, from the Services sector, $183.0 million, or 601%, from the Media & Advertising sector and $68.3 million, or 10%, from the Membership & Subscriptions sector. The revenue growth from the Retailing and Media & Advertising sectors were driven primarily by the acquisition of Cornerstone Brands and the acquisition of IAC Search & Media, respectively. The increase in the Services sector was driven by significant growth at the Lending segment, particularly from closing loans in its own name, along with growth in the Lending exchange, as well as strong domestic concert and sporting event ticket sales and further international expansion at our Ticketing segment. The growth in Membership & Subscriptions was led by Personals, which increased worldwide subscribers by 21%.

Additional revenue information is provided below on pages 46 through 55 by sector and segment.

Gross profit

	Years ended December 31,				
	2006	% Change	2005	% Change	2004
	(Dollars in thousands)				
Gross profit	$ 3,056,408	20%	$ 2,553,935	47%	$ 1,737,140
As a percentage of total revenue	49%	154 bp	47%	273 bp	44%

Gross profit in 2006 increased from 2005 primarily reflecting the IAC Search & Media and Cornerstone Brands acquisitions. Gross margins increased to 49% in 2006 from 47% in 2005 reflecting higher margins across all segments in the Membership & Subscriptions sector, partially offset by lower margins at the Media & Advertising sector and Lending.

Gross profit in 2005 increased from 2004 reflecting improved results at the Retailing sector, which were primarily driven by the acquisition of Cornerstone Brands, and the Services sector, which were primarily driven by the Lending and Ticketing results. The increase in gross profit also reflects the acquisition of IAC Search & Media and, to a lesser extent, improved results in the Membership & Subscriptions sector driven by the growth in Personals. Gross margins increased to 47% in 2005 from 44% in 2004 primarily reflecting higher margins in the Media & Advertising, Services and Membership & Subscriptions sectors.

Selling and marketing expense

	Years ended December 31,				
	2006	% Change	2005	% Change	2004
	(Dollars in thousands)				
Selling and marketing expense	$ 1,311,910	29%	$ 1,020,614	58%	$ 647,445
As a percentage of total revenue	21%	206 bp	19%	229 bp	17%

Selling and marketing expense in 2006 increased from 2005 primarily reflecting the impact of the inclusion of IAC Search & Media and Cornerstone Brands, and increases in marketing spending at Lending and Personals. The Lending segment experienced increased marketing expense to drive lead volume in more difficult mortgage market conditions while the Personals segment experienced increased marketing expense relating primarily to its international marketing campaign in 2006.

Selling and marketing expense in 2005 increased from 2004 primarily reflecting the impact of the Cornerstone Brands acquisition, increases at Lending and the impact of the IAC Search & Media acquisition. The Lending segment experienced increased selling and marketing expense in order to build its brands through on-line and direct consumer advertising mediums. In addition, Personals experienced higher selling and marketing expenses relating primarily to its offline marketing campaigns in 2005.

General and administrative expense

	Years ended December 31,				
	2006	% Change	2005	% Change	2004
	(Dollars in thousands)				
General and administrative expense	$ 786,864	4%	$ 759,341	43%	$ 530,099
As a percentage of total revenue	13%	(148) bp	14%	47 bp	14%

General and administrative expense in 2006 increased from 2005 primarily due to the inclusion of a full year of results of IAC Search & Media and Cornerstone Brands, as well as the results of Shoebuy in 2006. General and administrative expense also reflects increased employee related costs at several operating segments, mainly at Ticketing and Lending, due in part to increases in headcount resulting from growth in these businesses. Partially offsetting these factors are a decrease of $46.6 million in non-cash compensation expense, the absence of approximately $15.2 million of Spin-Off related expenses in 2006, favorable settlements of lawsuits, the reduction of litigation reserves and lower professional fees. The decrease in non-cash compensation expense is primarily due to a $67.0 million charge in 2005 related to the modification of vested stock options in connection with the Spin-Off, partially offset by an increase during 2006 in non-cash compensation expense associated with unvested stock options assumed in the IAC Search & Media and Cornerstone Brands acquisitions as well as expense associated with equity grants and modifications. Non-cash compensation expense related to equity awards assumed in acquisitions is recorded over the remaining vesting period of the equity awards and therefore will decline over time as the awards vest. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method and therefore has not restated results for the prior periods. There was no impact to the amount of stock-based compensation recorded in the consolidated statement of operations for the year ended December 31, 2006 as a result of adopting SFAS 123R. The Company has been recognizing expense for all stock-based grants since August 9, 2005, in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") due to the modification resulting from the Spin-Off. The majority of IAC's stock-based compensation expense is reflected in general and administrative expense. As of December 31, 2006, there was approximately $265.1 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is expected to be recognized over a weighted average period of approximately 3.1 years.

General and administrative expense in 2005 increased from 2004 primarily due to the inclusion of non-cash compensation expense of $124.2 million and $62.0 million, respectively. The increase in non-cash compensation expense in 2005 is primarily due to a $67.0 million charge related to the modification of vested stock options in connection with the Spin-Off and, to a lesser degree, non-cash compensation expense related to unvested stock options and restricted stock assumed in the IAC Search & Media and Cornerstone Brands acquisitions. These increases were partially offset by a reduction in non-cash compensation expense of $5.5 million due to the cumulative effect of a change in the Company's estimate related to the number of stock-based awards that were expected to vest. General and administrative expense also includes the results of Lending's loan origination operations, Cornerstone Brands and IAC Search & Media in the 2005 results, as well as the acquisition of ServiceMagic in September 2004. In addition, IAC's general and administrative expense also reflects increased employee related costs at several operating segments due in part to increased head count in 2005 and transaction expenses in connection with the Spin-Off in 2005.

Other operating expense

	Years ended December 31,				
	2006	% Change	2005	% Change	2004
	(Dollars in thousands)				
Other operating expense	$ 138,843	23%	$ 112,777	32%	$ 85,450
As a percentage of total revenue	2%	13 bp	2%	(10) bp	2%

Other operating expense in 2006 increased from 2005 primarily due to increased expenses at IAC Search & Media as it continues to upgrade and enhance its website features. Other operating expense consists primarily of production and programming costs at the Retailing sector and product development expenses related to the design, development, testing and enhancement of IAC Search & Media's technology.

Other operating expense in 2005 increased from 2004 primarily due to the inclusion of the results of IAC Search & Media since its acquisition on July 19, 2005.

Depreciation

	Years ended December 31,				
	2006	% Change	2005	% Change	2004
	(Dollars in thousands)				
Depreciation	$ 155,795	16%	$ 133,762	5%	$ 126,851
As a percentage of total revenue	2%	1 bp	2%	(77) bp	3%

Depreciation increased in both 2006 and 2005 primarily due to capital expenditures made throughout 2005 and 2006 and various acquisitions, partially offset by certain fixed assets becoming fully depreciated during the period.

Operating Income Before Amortization

	Years ended December 31,				
	2006	% Change	2005	% Change	2004
	(Dollars in thousands)				
Operating Income Before Amortization	$ 755,340	14%	$ 664,978	59%	$ 417,621
As a percentage of total revenue	12%	(24) bp	12%	160 bp	11%

Operating Income Before Amortization in 2006 increased from 2005 primarily due to the improved operating results of Ticketing, Personals and Vacations and the impact of the IAC Search & Media acquisition. Operating Income Before Amortization was also favorably impacted by a decrease in Corporate expenses primarily due to the inclusion of Spin-Off transaction expenses of $15.2 million in the prior year. Partially offsetting the increase in Operating Income Before Amortization was a decline at Lending, which was negatively impacted by market conditions throughout 2006.

Operating Income Before Amortization in 2005 increased from 2004 primarily due to the improved operating results at each of IAC's principal sectors and the acquisitions of Cornerstone Brands and IAC Search & Media in 2005.

Operating income

	Years ended December 31,				
	2006	% Change	2005	% Change	2004
	(Dollars in thousands)				
Operating income	$ 253,371	(26)%	$ 340,978	112%	$ 160,605
As a percentage of total revenue	4%	(226) bp	6%	219 bp	4%

In the fourth quarter of 2006, the Company recorded an impairment charge related to the write-down of the goodwill of the Discounts segment of $189.1 million which was recorded as a component of operating income in the accompanying consolidated statement of operations. The write-down was determined by comparing the fair value of the business and the implied value of the goodwill with the carrying amounts on the balance sheet. In addition, an impairment charge of $25.4 million was recorded in the fourth quarter of 2006 in connection with the write-down of certain intangible assets of the Discounts segment, which has been included in amortization of intangibles in the accompanying consolidated statement of operations. These write-downs primarily resulted from the significant continued deterioration in the core fundraising channels in which Entertainment Publications, Inc. ("EPI") operates and the anticipated deterioration in EPI's fourth quarter 2006 financial performance. The impairment charges recorded in 2006 resulted from the Company's annual impairment review of goodwill and intangible assets, which took place in the fourth quarter in connection with the preparation of its year-end financial statements.

Operating income in 2006 decreased from 2005 primarily reflecting the goodwill impairment charge noted above, as well as an increase in amortization of non-cash marketing of $37.1 million, partially offset by a decrease in non-cash compensation expense of $45.2 million, or 33%, and a decrease in intangible amortization expense of $3.0 million, or 2%. This net increase in expenses more than offset the increase in Operating Income Before Amortization discussed above. The amortization of non-cash marketing referred to in this report primarily consists of non-cash advertising secured from Universal Television as part of the transaction pursuant to which Vivendi Universal Entertainment, LLLP ("VUE") was created, and the subsequent transaction by which IAC sold its partnership interests in VUE. The decrease in the amortization of intangibles relates primarily to lower amortization expense at the Retailing and Services sectors due to certain intangible assets becoming fully amortized, partially offset by the intangible asset impairment charge at Discounts noted above, as well as an increase in amortization of intangibles arising from the acquisition of IAC Search & Media.

Operating income in 2005 increased from 2004 reflecting the increase in Operating Income Before Amortization noted above, a decrease in non-cash marketing of $1.3 million, partially offset by an increase in non-cash compensation expense of $67.2 million, or 96% and an increase in amortization of intangibles of $1.1 million, or 1%.

Other income (expense)

	Years ended December 31,				
	2006	% Change	2005	% Change	2004
	(Dollars in thousands)				
Other income (expense):					
Interest income	$ 72,587	(49)%	$ 140,999	(17)%	$ 170,172
Interest expense	(60,288)	(22)%	(77,635)	14 %	(68,367)
Gain on sale of VUE interests		(100)%	523,487	NA	
Equity in income of unconsolidated affiliates	34,324	(28)%	47,844	50 %	31,867
Other (expense) income	(616)	(105)%	12,638	(33)%	18,840

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Interest income in 2006 decreased from 2005 primarily due to the absence of any interest income related to the VUE preferred securities (compared to $51.0 million in the prior period) as these interests were sold on June 7, 2005 and lower cash and marketable securities balances in 2006. Interest expense in 2006 decreased from 2005 as a result of the prior year inclusion of interest expense on the Company's $6^3/_4$% Senior Notes which matured on November 15, 2005. This decrease was partially offset by the impact of higher interest rates on interest rate swap arrangements and interest expense on the New York City Industrial Development Agency Liberty Bonds due September 1, 2035 (the "Liberty Bonds").

Interest income in 2005 decreased from 2004 as a result of lower interest income related to the VUE preferred securities as these interests were sold on June 7, 2005, partially offset by higher interest rates earned during 2005. Interest expense increased in 2005 compared to 2004 primarily as a result of the impact of higher interest rates on interest rate swap arrangements and interest expense on the Ask Zero Coupon Convertible Subordinated Notes due June 1, 2008 (the "Convertible Notes").

Equity in the income of unconsolidated affiliates in 2006 decreased from 2005 primarily due to the absence of any equity income from its investment in VUE, partially offset by the increased equity income from Retailing International's investment in Jupiter Shop Channel, a shopping channel in Japan. Since the Company sold its interests in VUE in June 2005, no equity income from this investment was recorded in 2006. The Company recognized $22.0 million of equity income from its investment in VUE for 2005 compared with $16.2 million in 2004. Equity income in 2005 included IAC's share in VUE's results for the fourth quarter of 2004, which IAC had previously consistently recorded on a one-quarter lag, and IAC's share in VUE's result from January 1, 2005 through the date of sale. Additionally in 2005, equity in the income of unconsolidated affiliates increased due to a $9.2 million increase in equity income of unconsolidated affiliates of Retailing International, primarily due to the earnings from Jupiter Shop Channel.

Other income in 2006 decreased from 2005 primarily due to a change of $13.9 million in the amount recognized related to derivatives that were created in the Spin-Off (see Note 16 to the consolidated financial statements). The 2006 amount was a net loss of $9.3 million, and the 2005 amount was a net gain of $4.6 million. These derivatives are marked to market each reporting period. Partially offsetting the 2006 amount was a realized gain from the sale of an equity investment. Other income in 2005 decreased from 2004 primarily due to increases in realized losses of $19.5 million ($15.0 million of these losses were deemed to be other-than-temporary as of the end of the first quarter of 2005) and a $4.8 million decrease in foreign exchange gains. Losses deemed to be other-than-temporary related to marketable securities that were expected to be sold by the Company to fund its cash needs related to: the repurchase of 26.4 million shares of IAC common stock associated with the acquisition of IAC Search & Media; the acquisition of Cornerstone Brands; and the redemption of substantially all of IAC's preferred stock in connection with the Spin-Off. Partially offsetting these decreases were a $16.7 million gain on the sale of our minority interest share in our Italian home shopping operations and a $4.6 million increase related to the change in fair value of the derivatives that were created in the Spin-Off.

Income tax provision

In 2006, the Company recorded a tax provision for continuing operations of $125.1 million which represents an effective tax rate of 42%. The 2006 tax rate is higher than the federal statutory rate of 35% due principally to the impairment of goodwill (which is only partially deductible for income tax purposes), interest on tax contingencies, state and local income taxes and an increase in the valuation allowance on deferred tax assets related to state net operating losses. These unfavorable items were substantially offset by the release of deferred tax liabilities associated with a foreign equity investment, benefits associated with the Company's assertion that the earnings of certain foreign subsidiaries are permanently reinvested and net adjustments related to the reconciliation of provision accruals to tax returns. In 2005, the Company recorded a tax provision for continuing operations of $389.7 million which represents an effective tax rate of 39%. The 2005 tax rate is higher than the federal statutory rate of 35% due principally to state and local income taxes and non-deductible non-cash compensation expense. In 2004, the Company recorded a tax provision for continuing operations of $82.0 million which represented an effective tax rate of 26%. The 2004 rate was lower than the federal statutory rate of 35% due principally to the benefit of utilization of foreign tax credits, partially offset by the amortization of non-deductible intangible assets, state and local income taxes and earnings in foreign jurisdictions taxed at rates higher than 35%.

In 2005, the Joint Committee of Taxation completed its review and approved the audit settlement previously agreed to with the Internal Revenue Service ("IRS") for the years ended December 31, 1997 through 2000. The resolution of this IRS examination did not have a material effect on the Company's consolidated results of operations or its consolidated financial position. The IRS is currently examining the Company's tax returns for the years ended December 31, 2001 through 2003. The examination is expected to be completed in 2007. 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. Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year 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 ultimate outcome of these tax contingencies could have a material effect on the Company's consolidated financial statements.

Discontinued operations

Discontinued operations in the accompanying consolidated statements of operations include Expedia through August 8, 2005, EUVÍA through June 2, 2005 and PRC through November 28, 2006. TV Travel Shop, Quiz TV Limited, iBuy, Styleclick, ECS and Avaltus are presented as discontinued operations in the accompanying consolidated balance sheets and consolidated statements of operations for all periods presented. Income (loss) from these discontinued operations in 2006, 2005 and 2004 was income of $8.3 million, income of $209.6 million and a loss of $63.1 million, respectively, net of tax. The 2006 amount is principally due to the income of PRC as well as a tax benefit on state tax reserves released during the third and fourth quarters of 2006 related to the sale of USA Broadcasting in 2002, partially offset by the losses of Quiz TV. Additionally, the Company recognized a gain on the sale of PRC of $9.6 million, net of tax. The 2005 amount is principally due to the income of Expedia and a tax benefit of $62.8 million related to the write-off of the Company's investment in TV Travel Shop. Additionally, the Company recognized a gain on the sale of EUVÍA of $70.2 million, net of tax. The 2004 amount is principally due to losses of PRC, which included a $184.8 million goodwill impairment charge, and losses of TVTS, which included a $32.7 million impairment charge, partially offset by the income of Expedia.

In addition to the discussion of consolidated results, the following is a discussion of the results of each sector (Dollars in millions, rounding differences may occur).

	Years ended December 31,				
	2006	Growth	2005	Growth	2004
Revenue:					
Retailing:					
U.S.	$ 2,933.4	10 %	$ 2,671.0	40 %	$ 1,905.9
International	358.2	(6)%	379.9	11 %	342.0
Total Retailing	3,291.6	8 %	3,050.9	36 %	2,247.9
Services:					
Ticketing	1,085.4	14 %	950.2	24 %	768.2
Lending	428.8	17 %	367.8	131 %	159.3
Real Estate	56.8	(1)%	57.6	89 %	30.4
Home Services	63.7	55 %	41.0	494 %	6.9
Total Services	1,634.7	15 %	1,416.5	47 %	964.9
Media & Advertising	544.2	155 %	213.5	601 %	30.5
Membership & Subscriptions:					
Vacations	299.1	10 %	272.8	6 %	256.8
Personals	311.2	25 %	249.5	26 %	198.0
Discounts	196.8	(10)%	219.0	0 %	217.9
Intra-sector elimination	(1.6)	(13)%	(1.5)	(11)%	(1.3)
Total Membership & Subscriptions	805.5	9 %	739.8	10 %	671.5
Emerging Businesses	7.5	711 %	0.9	NM	
Intersegment eliminations	(6.0)	(19)%	(5.1)	(37)%	(3.7)
Total	$ 6,277.6	16 %	$ 5,416.5	38 %	$ 3,911.0

	Years ended December 31,				
	2006	Growth	2005	Growth	2004
Operating Income (Loss):					
Retailing:					
U.S.	$228.0	5 %	$216.7	53 %	$141.7
International	3.7	(16)%	4.5	49 %	3.0
Total Retailing	231.7	5 %	221.1	53 %	144.7
Services:					
Ticketing	237.3	25%	189.9	38%	137.9
Lending	48.1	(13)%	55.3	1,161 %	4.4
Real Estate	(28.5)	4%	(29.5)	(147)%	(12.0)
Home Services	12.4	39 %	8.9	NM	(2.2)
Total Services	269.4	20 %	224.6	75 %	128.1
Media & Advertising	(6.0)	NM	7.7	NM	(47.1)
Membership & Subscriptions:					
Vacations	99.6	16 %	85.5	32 %	65.0
Personals	58.4	32 %	44.1	134 %	18.8
Discounts	(205.2)	NM	11.2	(21)%	14.0

	Years ended December 31,				
Total Membership & Subscriptions	(47.2)	NM	140.8	44 %	97.9
Emerging Businesses	(21.0)	(66)%	(12.7)	(50)%	(8.4)
Corporate and other	(173.4)	28 %	(240.6)	(56)%	(154.6)
Total	$253.4	(26)%	$341.0	112 %	$160.6

	Years ended December 31,				
	2006	Growth	2005	Growth	2004
Operating Income Before Amortization:					
Retailing:					
U.S.	$ 268.9	(3)%	$ 276.6	42 %	$ 194.7
International	4.4	(23)%	5.8	34 %	4.3
Total Retailing	273.3	(3)%	282.3	42 %	199.0
Services:					
Ticketing	264.4	21 %	218.7	33 %	164.3
Lending	63.6	(21)%	80.6	209 %	26.1
Real Estate	(21.3)	(28)%	(16.7)	(260)%	(4.6)
Home Services	16.2	44 %	11.2	3,799 %	0.3
Total Services	322.9	10 %	293.9	58 %	186.0
Media & Advertising	58.3	91 %	30.5	NM	(13.3)
Membership & Subscriptions:					
Vacations	124.8	13 %	110.7	23 %	90.2
Personals	63.4	32 %	47.9	74 %	27.6
Discounts	13.9	(21)%	17.5	(20)%	22.0
Total Membership & Subscriptions	202.0	15 %	176.2	26 %	139.8
Emerging Businesses	(15.9)	(31)%	(12.1)	(170)%	(4.5)
Corporate and other	(85.4)	19 %	(105.7)	(18)%	(89.4)
Total	$ 755.3	14 %	$ 665.0	59 %	$ 417.6

Refer to Note 9 of the consolidated financial statements on pages 107 through 109 for a reconciliation by sector of Operating Income Before Amortization to Operating Income.

Retailing

Revenue and operating income for the Retailing sector increased in 2006 from 2005 primarily due to the inclusion of the results of Cornerstone Brands and Shoebuy from April 1, 2005 and February 3, 2006, respectively. Partially offsetting the growth at the Retailing sector was lower revenue at Retailing International. Retailing U.S. also includes HSN, which had relatively flat revenue in 2006.

Revenue, Operating Income Before Amortization and operating income for the Retailing sector increased in 2005 from 2004 primarily due to the inclusion of Cornerstone Brands. Results were also impacted with modest year-over-year revenue growth at HSN.

U.S.

For the year ended December 31, 2006 compared to the year ended December 31, 2005

Revenue grew 10% to $2.9 billion, principally reflecting the inclusion of Cornerstone Brands since its acquisition in April 2005 and subsequent growth of the Catalogs business in 2006. Revenue in the current year was also favorably impacted by the acquisition of Shoebuy in February 2006. Revenue benefited from a 7% increase in units shipped, a 2% increase in average price point, partially offset by a 110 basis point increase in return rates. HSN's revenue remained relatively flat in 2006 primarily due to a 3% increase in units shipped, offset by a 160 basis point increase in return rates and a 2% decrease in average price point. Overall, HSN experienced a decrease in TV sales of products in the electronic housewares and beauty categories, which contributed to flat revenue, despite double digit online sales growth. In addition, HSN's sales were also adversely impacted by higher overall return rates in several product categories, as well as product mix shifts into categories with generally higher average return rates.

Operating Income Before Amortization decreased 3% to $268.9 million, primarily due to higher operating costs associated with increased catalog circulation and higher on-air distribution expenses, partially offset by the higher revenue noted above and a 40 basis point increase in gross margins. Although Retailing U.S. benefited from higher gross margins at the Catalogs business, gross margins at HSN declined 70 basis points principally due to higher return rates, higher inventory reserves versus the prior year period and increased shipping and handling promotions. Gross margins in 2005 were impacted by a $5.8 million favorable adjustment to certain accrued liabilities. Higher return rates negatively impact both revenue and gross margins as higher returns result in higher warehouse processing costs and higher inventory mark-downs for goods that are not resalable at full retail price. The impact of the increase in overall return rates on gross margins was $16.4 million in 2006.

Operating income increased 5% to $228.0 million despite the decrease in Operating Income Before Amortization described above primarily due to a $23.2 million decrease in the amortization of intangibles resulting from certain intangible assets being fully amortized in 2006, partially offset by a $4.3 million increase in non-cash compensation expense.

Results at HSN were disappointing, even as the Company took steps to address operational and other issues to regain competitive momentum. We expect profits at HSN to be close to flat in 2007, as we expect difficult profit comparisons in the first half of the year to be offset by profit growth in the second half of the year. Catalogs is expected to grow profits during 2007 consistent with its top line, and we expect overall Retailing U.S. profits to increase in 2007.

For the year ended December 31, 2005 compared to the year ended December 31, 2004

Revenue grew 40% to $2.7 billion, principally reflecting the inclusion of results of Cornerstone Brands as well as strong online sales growth at HSN.com. Revenue benefited from a 12% increase in average price point and a 25% increase in units shipped, partially offset by a 30 basis point increase in return rates. Excluding the results of Cornerstone Brands, HSN's revenue growth was 6% in 2005 compared with 2004 as a result of a 3% increase in units shipped and a 4% increase in average price point, partially offset by a 20 basis point increase in return rates. Overall, HSN's product mix shifted in 2005 with decreased sales in the jewelry category and increased sales in the electronic houseware and health & infomercial categories.

Operating Income Before Amortization grew 42% to $276.6 million, primarily due to the higher revenue noted above and an increase in gross margins of 110 basis points, partially offset by an increase in return rates. Although Retailing U.S. benefited from higher gross margins at Cornerstone Brands, gross margins at HSN declined 60 basis points principally due to increased shipping and handling promotions. Other operating efficiencies were partially offset by the inclusion of Cornerstone Brands, as catalogs typically have relatively higher operating expenses. The impact of the increase in overall return rates on gross profit was $3.8 million. The 2005 results were also favorably impacted by a $5.8 million adjustment to certain accrued liabilities in 2005. The 2004 results were unfavorably impacted by a $3.5 million impairment charge related to the closure of a warehouse facility in Salem, VA and favorably impacted by the reversal of a reserve of $2.5 million as a result of the final resolution of a legal dispute.

Operating income grew 53% to $216.7 million due to the increase in Operating Income Before Amortization described above, partially offset by a $6.5 million increase in amortization of intangibles primarily resulting from the acquisition of Cornerstone Brands and a $0.4 million increase in non-cash compensation expense.

International

For the year ended December 31, 2006 compared to the year ended December 31, 2005

Revenue decreased 6% to $358.2 million, primarily due to a decrease in sales across most product categories, an increase in return rates and reduced on-air distribution. Foreign exchange had little impact on the results for the year.

Operating Income Before Amortization decreased 23% to $4.4 million. Results were adversely impacted by the lower revenue discussed above and an increase in administrative expenses related to order processing delays during the second quarter 20