MACERICH CO
Form S-3
July 15, 2003

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As filed with the Securities and Exchange Commission on July 15, 2003.

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

THE MACERICH COMPANY

(Exact name of Registrant as specified in its charter)

MARYLAND	**99-4448705**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

**401 Wilshire Boulevard, No. 700
Santa Monica, California 90401
(310) 394-6000**
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

**Arthur M. Coppola, President
The Macerich Company
401 Wilshire Boulevard, No. 700
Santa Monica, California 90401
(310) 394-6000**
(Name, Address, including zip code, and telephone number, including area code, of Agent for Service)

COPY TO:

Frederick B. McLane, Esq.
O'Melveny & Myers LLP
400 South Hope Street
Los Angeles, California 90071-2899
(213) 430-6000

**APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
FROM TIME TO TIME AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.**

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ý

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share(4)	Proposed Maximum Aggregate Offering Price(4)	Amount of Registration Fee
Common Stock ($.01 par value per share)	1,961,345(1)(2)	$35.95	$70,510,352.75	$5,704.29
Series D Cumulative Convertible Preferred Stock ($.01 par value per share)	1,961,345(1)(3)	$35.95	$70,510,352.75	$5,704.29
Total		$71.90	$141,020,705.50	$11,408.58

(1) Including an indeterminate number of shares which may be issued by The Macerich Company with respect to such shares by way of a stock split, stock dividend or similar transaction or otherwise.

(2) Each share of common stock is accompanied by a preferred share purchase right pursuant to the Registrant's Agreement dated November 10, 1998 with EquiServe Trust Company, N.A., as rights agent.

(3) Each share of preferred stock is convertible at any time into one share of common stock, subject to adjustment in the event of dilutive or other capital events.

(4) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) based on the average of the high and low reported sales price of the common stock on the New York Stock Exchange on July 10, 2003.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

Subject to Completion Dated July 15, 2003

Prospectus

THE MACERICH COMPANY

1,961,345 Shares of Series D Cumulative Convertible Preferred Stock
1,961,345 Shares of Common Stock

We may issue up to 1,961,345 shares of our series D cumulative convertible preferred stock, par value $.01 per share, to holders of up to 1,961,345 series D preferred units of limited partnership interest in The Macerich Partnership, L.P., upon tender of those units for redemption. The Macerich Partnership, L.P., or the "operating partnership," is the entity through which we own our assets and operate our business. We will refer to our series D cumulative convertible preferred stock as our "Series D Preferred Stock," and we will refer to the series D preferred units of limited partnership interest in the operating partnership as the "Series D Preferred Units."

In addition, we may issue up to an aggregate of 1,961,345 shares of our common stock, par value $.01 per share, to:

- holders of up to 1,961,345 shares of our Series D Preferred Stock, upon tender of those shares for conversion; and
- holders of up to 1,961,345 shares of common units of limited partnership interest in the operating partnership issued upon conversion of up to 1,961,345 Series D Preferred Units, upon tender of those common units for redemption.

The Series D Preferred Units were issued to partners of Westcor Realty Limited Partnership in connection with our acquisition on July 26, 2002 of Westcor Realty Limited Partnership and its affiliate companies. We are required to register our common stock and Series D Preferred Stock pursuant to a registration rights agreement with the holders of the Series D Preferred Units. We will acquire common units and Series D Preferred Units from redeeming unit holders in exchange for any common stock or Series D Preferred Stock that we issue upon redemption. We have registered the issuance of the common stock and Series D Preferred Stock to permit their holders to sell them in the open market or otherwise, but the registration of these shares does not necessarily mean that any holders will elect to redeem their units or convert their Series D Preferred Stock. Also, upon any redemption, we may elect to pay cash for the units tendered rather than issue shares. Although we will incur expenses in connection with the registration of the common stock and Series D Preferred Stock, we will not receive any cash proceeds upon their issuance.

Our principal executive offices are located at 401 Wilshire Boulevard, No. 700, Santa Monica, California 90401, and our telephone number is (310) 394-6000. Our common stock is listed on the New York Stock Exchange under the symbol "MAC."

INVESTING IN OUR SECURITIES INVOLVES RISKS.
SEE "RISK FACTORS" ON PAGE 1 OF THIS PROSPECTUS.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2003.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS OR TO WHICH THIS PROSPECTUS OR ANY PROSPECTUS SUPPLEMENT REFERS YOU. NO ONE IS AUTHORIZED TO PROVIDE YOU WITH DIFFERENT INFORMATION. WE ARE NEITHER MAKING AN OFFER TO SELL THESE SECURITIES TO YOU NOR SOLICITING AN OFFER FROM YOU TO BUY THESE SECURITIES IN ANY PLACE WHERE THE OFFER OR SALE TO YOU IS NOT PERMITTED. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS PROSPECTUS OR ANY PROSPECTUS SUPPLEMENT IS CORRECT ON ANY DATE AFTER THE DATE OF THIS PROSPECTUS OR THE PROSPECTUS SUPPLEMENT. THIS IS TRUE EVEN IF THIS PROSPECTUS OR A PROSPECTUS SUPPLEMENT IS GIVEN TO YOU OR THESE SECURITIES ARE OFFERED OR SOLD TO YOU ON A LATER DATE.

RISK FACTORS

You should carefully consider, among other factors, the matters described below before you exercise your right to require the conversion or redemption of your Series D Preferred Units, the redemption of any common units you may receive upon conversion of your Series D Preferred Units, or the conversion of any Series D Preferred Stock you may receive upon redemption of your Series D Preferred Units.

Risks Related to this Offering

You should carefully consider the tax consequences of redeeming units.

The exercise of your right to require the redemption of your Series D Preferred Units or common units may be treated for tax purposes as a sale of those units. If treated as a sale, this sale will be fully taxable to you, and you will be treated as realizing for tax purposes an amount equal to the sum of (i) the cash or the value of our Series D Preferred Stock or common stock received in the redemption plus (ii) the amount of the operating partnership liabilities considered allocable to the redeemed units at the time of the redemption, including the operating partnership's share of the liabilities of certain entities in which the operating partnership owns an interest. Depending upon your particular circumstances, gain may be recognized, and the amount of gain recognized, or even the tax liability resulting from that gain, could exceed the amount of cash and the value of other property, e.g., the Series D Preferred Stock or common stock, received upon the redemption. See "Redemption of Series D Preferred Units and Common Units; Conversion of Series D Preferred Stock Tax Consequences of Redemption of OP Units" for more information on these tax consequences.

Risks Related to the Series D Preferred Stock

Holders of the Series D Preferred Stock could be unable to resell their shares without converting those shares into our common stock.

We do not believe any trading market or liquidity will develop for the Series D Preferred Stock, although holders may convert their shares of Series D Preferred Stock into shares of our common stock at any time. We have not applied and do not intend to apply to list the Series D Preferred Stock on any securities exchange or to include the Series D Preferred Stock in any automated quotation system.

The Series D Preferred Stock ranks junior to all of our liabilities.

While the Series D Preferred Stock ranks pari passu with our other outstanding series of preferred stock, in the event of our bankruptcy, liquidation or winding-up, our assets will be available to pay obligations on the Series D Preferred Stock only after all of our indebtedness and other liabilities have been paid. In addition, the Series D Preferred Stock will effectively rank junior to all existing and future indebtedness and other liabilities of our subsidiaries and any equity interests in our subsidiaries that rank senior to the equity interests held by us. The rights of holders of the Series D Preferred Stock to participate in the assets of our subsidiaries upon any liquidation or reorganization of any subsidiary will rank junior to the prior claims of that subsidiary's creditors and the holders of any equity interests in our subsidiaries that rank senior to the equity interests held by us.

Because the Series D Preferred Stock has limited voting rights, holders generally will not have the ability to control our operations.

Holders of the Series D Preferred Stock will have very few voting rights. The only class of our stock carrying full voting rights is our common stock. Therefore, in most cases, holders of the Series D Preferred Stock will not have the ability to exercise voting control over our operations.

We may not be able to pay cash dividends on the Series D Preferred Stock.

We are required to pay all authorized dividends on the Series D Preferred Stock in cash. Our existing financing agreements limit, and any other financing agreements that we enter into in the future will likely limit, our ability to pay cash dividends on our capital stock. Specifically, we may pay cash dividends and make other distributions on our capital stock, including the Series D Preferred Stock, based on a formula derived from funds from operations and only if no event of default under the financing agreements has occurred, unless, under certain circumstances, payment of the distribution is necessary to enable us to qualify as a real estate investment trust (a "REIT") under the Internal Revenue Code. In the event that any of our financing agreements in the future restrict our ability to pay cash dividends on the Series D Preferred Stock, we will be unable to pay cash dividends unless we can refinance amounts outstanding under those agreements.

Risks Related to Real Estate Investments

We invest primarily in shopping centers, which are subject to a number of significant risks which are beyond our control.

Real property investments are subject to varying degrees of risk that may affect the ability of our regional and community shopping centers to generate sufficient revenues to meet operating and other expenses, including debt service, lease payments, capital expenditures and tenant improvements, and to make distributions to us and our stockholders. In this prospectus, we will refer to shopping centers that are owned wholly by us as "Wholly-Owned Centers" and to shopping centers that are partly but not wholly-owned by us as "Joint Venture Centers." We will refer to each of the Wholly-Owned Centers and Joint Venture Centers as a "Center." A number of factors may decrease the income generated by the Centers, including:

- the national economic climate;
- the regional and local economy (which may be negatively impacted by plant closings, industry slowdowns, union activity, adverse weather conditions, natural disasters, terrorist activities and other factors);
- local real estate conditions (such as an oversupply of, or a reduction in demand for, retail space or retail goods, and the availability and creditworthiness of current and prospective tenants);
- perceptions by retailers or shoppers of the safety, convenience and attractiveness of a Center; and
- increased costs of maintenance, insurance and operations (including real estate taxes).

Income from shopping center properties and shopping center values are also affected by applicable laws and regulations, including tax and zoning laws, and by interest rate levels and the availability and cost of financing. In addition, the number of prospective buyers interested in purchasing shopping centers is limited. Therefore, if we sell the Centers, we may receive less money than we have invested in the Centers.

Some of our centers are geographically concentrated and, as a result, are sensitive to local economic and real estate conditions.

A significant percentage of our Centers are located in California and Arizona. To the extent that weak economic conditions or other factors affect California or Arizona (or their respective regions) more severely than other areas of the country, our financial performance could be negatively impacted.

Our centers must compete with other retail centers and retail formats for tenants and customers.

There are numerous shopping facilities that compete with the Centers in attracting tenants to lease space, and an increasing number of new retail formats and technologies other than retail shopping centers compete with the Centers for retail sales. Competing retail formats include factory outlet centers, power centers, discount shopping clubs, mail-order services, internet shopping and home shopping networks. Our revenues may be reduced as a result of increased competition.

Our centers depend on tenants to generate rental revenues.

Our revenues and funds available for distribution will be reduced if:

- a significant number of our tenants are unable (due to poor operating results, bankruptcy or other reasons) to meet their obligations;
- we are unable to lease a significant amount of space in the Centers on economically favorable terms; or
- for any other reason, we are unable to collect a significant amount of rental payments.

A decision by a department store or other large retail store tenant (an "anchor"), or other significant tenant, to cease operations at a Center could also have an adverse effect on our financial condition. The closing of an anchor may allow other anchors or other tenants to terminate their leases or cease operating their stores at the Center or otherwise adversely affect occupancy at the Center. In addition, tenants at one or more Centers might terminate their leases as a result of mergers, acquisitions, consolidations, dispositions or bankruptcies in the retail industry. The bankruptcy and/or closure of retail stores, or sale of a store or stores to a less desirable retailer, may reduce occupancy levels and rental income, or otherwise adversely affect our financial performance. Furthermore, if the store sales of retailers operating in the Centers decline sufficiently, tenants might be unable to pay their minimum rents or expense recovery charges. In the event of a default by a lessee, the affected Center may experience delays and costs in enforcing its rights as lessor.

Macerich Management Company is subject to the risks associated with the third party property management and leasing business.

One of our management companies, Macerich Management Company, is subject to the risks associated with providing third-party property management and leasing services. These risks include the risks that:

- management and leasing contracts with third-party owners will be lost to competitors;
- contracts will not be renewed on terms consistent with current terms; and
- leasing activity generally may decline.

Third parties can terminate most of our third-party management contracts on 30 to 60 days notice. In addition, if revenues fall, Macerich Management Company will receive reduced compensation under virtually all of our third-party property management agreements.

Our acquisition and real estate development strategies may not be successful.

Our historical growth in revenues, net income and funds from operations has been closely tied to the acquisition and redevelopment of shopping centers. Many factors, including the availability and cost of capital, our total amount of debt outstanding, interest rates and the availability of attractive acquisition targets, among others, will affect our ability to acquire and redevelop additional properties in the future. We may not be successful in pursuing acquisition opportunities, and newly acquired properties may not perform as well as expected. Expenses arising from our efforts to complete

acquisitions, redevelop properties or increase our market penetration may have a material adverse effect on our business, financial condition and results of operations. We face competition for acquisitions primarily from other REITs, as well as from private real estate companies and financial buyers. Some of our competitors have greater financial and other resources than we do. Increased competition for shopping center acquisitions may impact adversely our ability to acquire additional properties on favorable terms. We cannot guarantee that we will be able to implement our growth strategy successfully or manage our expanded operations effectively and profitably. Acquiring a portfolio of properties increases the risks associated with new acquisitions.

We may not be able to achieve the anticipated financial and operating results from newly acquired assets. Some of the factors that could affect anticipated results are:

- our ability to integrate and manage new properties, including increasing occupancy rates and rents at such properties;
- the disposal of non-core assets within an expected time frame; and
- our ability to raise long-term financing to implement a capital structure at a cost of capital consistent with our business strategy.

Our business strategy also includes the selective development and construction of retail properties. Any development, redevelopment and construction activities that we undertake will be subject to the risks of real estate development, including lack of financing, construction delays, environmental requirements, budget overruns, sunk costs and lease-up. Furthermore, occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable. Real estate development activities are also subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations. If any of the above events occur, the ability to pay distributions to our stockholders and service our indebtedness could be adversely affected.

Recent federal income tax developments could affect the desirability of investing in our Company for individual taxpayers.

In May 2003, federal legislation was enacted that reduces the maximum tax rate for dividends payable to individual taxpayers generally from 38.6% to 15% (from January 1, 2003 through 2008). However, dividends payable by REITs are not eligible for such treatment, except in limited circumstances which we do not expect to occur. Although this legislation does not have a directly adverse effect on the taxation of REITs or dividends paid by REITs, the more favorable treatment for non-REIT dividends could cause individual investors to consider investments in non-REIT corporations as more attractive relative to an investment in a REIT such as our Company. We cannot predict what impact this may have on the value of any investment in our Company.

Risks Related to Conflicts of Interest

The structure of Macerich Management Company and its management agreements may create conflicts of interest.

Macerich Management Company provides property management services to certain of the Joint Venture Centers and properties owned by third parties. Mace Siegel, Arthur M. Coppola, Dana K. Anderson and Edward C. Coppola (the "Principals") own 100% of the outstanding shares of voting common stock of Macerich Management Company. The operating partnership owns 100% of the outstanding shares of non-voting preferred stock of Macerich Management Company. We have a majority interest in the operating partnership and are its sole general partner. As the holder of 100% of the preferred stock, the operating partnership has the right to receive 95% of Macerich Management Company's net cash flow. However, since it is an operating company and not a passive entity, our investment in the non-voting preferred stock is subject to the risk that the Principals might have interests that are inconsistent with our interests.

Macerich Management Company also provides management, leasing, construction and redevelopment services for shopping centers owned by third parties that are unaffiliated with us. Macerich Management Company may agree to manage additional shopping centers that might compete with the Centers. These types of arrangements could also create conflicts of interest for the Principals.

The Principals have substantial influence over the management of both our Company and the operating partnership, which may create conflicts of interest.

Under the partnership agreement of the operating partnership (the "Partnership Agreement"), we, as the sole general partner, are responsible for the management of the operating partnership's business and affairs. Each of the Principals serves as one of our executive officers and as a member of our Board of Directors. Accordingly, the Principals have substantial influence over our management and the management of the operating partnership.

The tax consequences of the sale of some of the Centers may create conflicts of interest.

The Principals will experience negative tax consequences if some of the Centers are sold. As a result, the Principals may not favor a sale of these Centers even though such a sale may benefit our other stockholders. See "Federal Income Tax Considerations."

The required consent of third party limited partners of the operating partnership for some transactions may create conflicts of interest.

The Partnership Agreement provides that a decision to merge the operating partnership, sell all or substantially all of its assets or liquidate must be approved by the holders of 75% of the outstanding common and preferred limited partnership interests in the operating partnership ("OP units"). Depending on the percentage of the outstanding OP units owned by us at the time, the concurrence of at least some of the other holders of OP units may be required to approve any merger, sale of all or substantially all of the assets, or liquidation of the operating partnership. As of the date of this prospectus, we own 82% of the outstanding common and preferred OP units.

The guarantees of indebtedness by the Principals may create conflicts of interest.

The Principals have guaranteed mortgage loans encumbering some of the Centers. As of the date of this prospectus, the Principals have guaranteed an aggregate principal amount of approximately $23.75 million. The existence of guarantees of these loans by the Principals could result in the Principals having interests that are inconsistent with our interests.

Other Risks Affecting our Business and Operations

If our indebtedness increases, our financial condition and results of operations could be adversely affected.

Our organizational documents do not limit the amount or percentage of indebtedness that we may incur. Accordingly, our Board of Directors could increase our leverage in the future. If it did, there would be an increase in our debt service requirements and an increased risk of default on our obligations, either of which may adversely affect our financial condition and results of operations.

We may change our policies in ways that adversely affect our financial condition or results of operations.

Our investment and financing policies and our policies with respect to other activities, including our growth, debt capitalization, distributions, REIT status and operating policies are determined by our Board of Directors. Our Board of Directors may change these policies at any time without a vote of our stockholders. A change in these policies might adversely affect our financial condition or results of operations.

If we fail to qualify as a REIT, we will have reduced funds available for distribution to our stockholders.

No assurance can be given that we have qualified or will remain qualified as a REIT. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. The complexity of these provisions and of the applicable income tax regulations is greater in the case of a REIT such as ours that holds its assets in partnership form. The determination of various factual matters and circumstances not entirely within our control, including determinations by our partners in the Joint Venture Centers, may affect our ability to qualify as a REIT. In addition, legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to our qualification as a REIT or the federal income tax consequences of that qualification.

If in any taxable year we fail to qualify as a REIT, we will suffer the following negative results:

- we will not be allowed a deduction for distributions to stockholders in computing our taxable income; and

- we will be subject to federal income tax on our taxable income at regular corporate rates.

In addition, we will be disqualified from treatment as a REIT for the four taxable years following the year during which the qualification was lost, unless we were entitled to relief under statutory provisions. As a result, net income and the funds available for distribution to our stockholders will be reduced for five years. It is possible that future economic, market, legal, tax or other considerations might cause the Board of Directors to revoke our REIT election. See "Federal Income Tax Considerations."

Our debt financing may adversely impact our stockholders.

We are subject to the risks associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest. Our outstanding indebtedness represents obligations of the operating partnership and the entities that own the Centers (collectively, the "Property Partnerships"). Most of this outstanding indebtedness is nonrecourse to the obligor, and we have mortgaged a majority of the Centers to secure payment of this indebtedness. If mortgage payments cannot be made, a mortgagee could foreclose, resulting in a loss to us. Outstanding indebtedness under our revolving credit and term credit facilities is the obligation of the operating partnership and some of the Property Partnerships.

Our current indebtedness bears interest at both fixed and floating interest rates. For future financings, we intend to seek the most attractive financing arrangements available at the time, which may involve either fixed or floating interest rates. With respect to floating rate indebtedness, increases in interest rates may adversely affect our funds from operations, funds available for distribution and ability to meet our debt service obligations.

We are obligated to make balloon payments of principal under mortgages on some of the Centers. Although we anticipate that we will be able to refinance those mortgages by the time the balloon payments become due, or otherwise obtain funds by raising equity, incurring debt or selling assets,

there can be no assurance that we will be able to do so. In addition, interest rates and other terms of any debt issued to refinance this mortgage debt may be less favorable than the terms of the current mortgage debt.

To qualify as a REIT under the Internal Revenue Code, we generally are required each year to distribute to our stockholders at least 90% of our net taxable income determined without regard to net capital gains and the dividends paid deduction. We may be required to borrow funds on a short-term basis or liquidate investments to meet the distribution requirements that are necessary to qualify as a REIT, even if management believes that it is otherwise not in our best interests to do so.

Outside partners in Joint Venture Centers result in additional risks to our stockholders.

We own partial interests in Property Partnerships that own 37 Joint Venture Centers as well as fee title to a site that is ground leased to a Property Partnership that owns a Joint Venture Center and several development sites. We own a 50% interest in Property Partnerships that own 24 of the Joint Venture Centers with shared management control (Eastland Mall, Empire Mall, Granite Run Mall, Lake Square Mall, Lindale Mall, Mesa Mall, NorthPark Mall, Rushmore Mall, SouthPark Mall, Southern Hills Mall, Southridge Mall, Valley Mall, Chandler Gateway, Chandler Festival, Chandler Boulevard Shops, Desert Sky Mall, Hilton Village, The Promenade, Scottsdale Fashion Square, and the five Joint Venture Centers owned by Paradise Village Investment Company), a 50% managing general partnership interest in the Property Partnership that owns one of the Joint Venture Centers (Broadway Plaza), a 51% interest in the Property Partnerships that own seven of the Joint Venture Centers with shared management control (Lakewood Mall, Cascade Mall, Kitsap Mall, Los Cerritos Center, Redmond Town Center, Stonewood Mall and Washington Square), a 50% interest (with shared management control) in the Property Partnership that owns fee title to the site ground leased to the Property Partnership that owns Superstition Springs Center, a 33.33% interest in Property Partnerships that own two of the Joint Venture Centers with shared management control (Arrowhead Towne Center and Superstition Springs Center), a 73% interest (with shared management control) in the Property Partnership that owns one of the Joint Venture Centers (Camelback Colonnade), a 46% interest in a Property Partnership that owns one of the Joint Venture Centers with shared management control (Scottsdale 101), and a 19% non-managing general partnership interest in the Property Partnership that holds one of the Joint Venture Centers (West Acres Center). We may acquire partial interests in additional properties through joint venture arrangements. Investments in Centers that are not Wholly-Owned Centers involve risks different from those of investments in Wholly-Owned Centers.

We may have fiduciary responsibilities to our partners that could affect decisions concerning the Joint Venture Centers. Third parties may share control of major decisions relating to the Joint Venture Centers with us, including decisions with respect to sales, refinancings and the timing and amount of additional capital contributions, as well as decisions that could have an adverse impact on our REIT status. For example, we may lose our management rights relating to the Joint Venture Centers if:

- the operating partnership fails to contribute its share of additional capital needed by the Property Partnerships;
- the operating partnership defaults under a partnership agreement for a Property Partnership or other agreements relating to the Property Partnerships or the Joint Venture Centers; or
- with respect to certain of the Joint Venture Centers, if certain designated key employees no longer are employed in the designated positions.

In addition, some of our outside partners control the day-to-day operations of seven Joint Venture Centers (West Acres Center, Eastland Mall, Granite Run Mall, Lake Square Mall, North Park Mall, South Park Mall and Valley Mall). We therefore do not control cash distributions from these Centers,

and the lack of cash distributions from these Centers could jeopardize our ability to maintain our qualification as a REIT.

Our holding company structure makes us dependent on operating partnership distributions.

Because we conduct our operations through the operating partnership, our ability to service our debt obligations and our ability to pay dividends on our common stock are strictly dependent upon the earnings and cash flows of the operating partnership and the ability of the operating partnership to make intercompany distributions to us. Under the Delaware Revised Uniform Limited Partnership Act, the operating partnership is prohibited from making any distribution to us to the extent that at the time of the distribution, after giving effect to the distribution, all liabilities of the operating partnership (other than some nonrecourse liabilities and some liabilities to the partners) exceed the fair value of the assets of the operating partnership.

Bankruptcy and/or closure of retail stores may adversely affect the Centers.

The bankruptcy and/or closure of an anchor, or its sale to a less desirable retailer, could reduce customer traffic in a Center and the income generated by that Center. Furthermore, the closing of an anchor may allow other anchors or other tenants to terminate their leases or cease operating their stores at the Center or otherwise lower the occupancy rate at the Center.

Retail stores at the Centers other than anchors may also seek the protection of the bankruptcy laws and/or close stores, which may result in the termination of their leases and reduce the cash flow generated by an affected Center, as well as the occupancy levels and rental incomes at the Center.

Possible environmental liabilities could adversely affect us.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in that real property. These laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of hazardous or toxic substances. The costs of investigation, removal or remediation of hazardous or toxic substances may be substantial. In addition, the presence of hazardous or toxic substances, or the failure to remedy environmental hazards properly, may adversely affect the owner's or operator's ability to sell or rent affected real property or to borrow money using affected real property as collateral.

Persons or entities that arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of hazardous or toxic substances at the disposal or treatment facility, whether or not that facility is owned or operated by the person or entity arranging for the disposal or treatment of hazardous or toxic substances. Laws exist that impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery from owners or operators of real property for personal injury associated with exposure to asbestos-containing materials. In connection with our ownership, operation, management, development and redevelopment of the Centers, or any other Centers or properties we acquire in the future, we may be potentially liable under these laws and may incur costs in responding to these liabilities. For a description of known environmental liabilities, see our most recent Annual Report on Form 10-K and our most recent Quarterly Report on Form 10-Q.

An ownership limit and certain anti-takeover defenses could inhibit a change of control of our Company or reduce the value of our stock.

The Ownership Limit. In order for us to maintain our qualification as a REIT, not more than 50% in value of our outstanding stock (after taking into account options to acquire stock) may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include

some entities that would not ordinarily be considered "individuals") during the last half of a taxable year. Our charter restricts ownership of more than 5% (the "Ownership Limit") of the lesser of the number or value of our outstanding shares of stock by any single stockholder (with limited exceptions for some holders of the OP units, and their respective families and affiliated entities, including all four Principals). In addition to enhancing preservation of our status as a REIT, the Ownership Limit may:

- have the effect of delaying, deferring or preventing a change in control of our Company or other transaction without the approval of our Board of Directors, even if the change in control or other transaction is in the best interest of our stockholders; and
- limit the opportunity for our stockholders to receive a premium for their common stock that they might otherwise receive if an investor were attempting to acquire a block of common stock in excess of the Ownership Limit or otherwise effect a change in control of our Company.

Our Board of Directors, in its sole discretion, may waive or modify (subject to limitations) the Ownership Limit with respect to one or more stockholders, if it is satisfied that ownership in excess of this limit will not jeopardize our status as a REIT.

Stockholder Rights Plan and Selected Provisions of our Charter and Bylaws. Agreements to which we are a party, as well as some of the provisions of our charter and bylaws, may have the effect of delaying, deferring or preventing a third party from making an acquisition proposal for our Company and may inhibit a change in control that some, or a majority, of our stockholders might believe to be in their best interest or that could give our stockholders the opportunity to realize a premium over the then-prevailing market prices. These agreements and provisions include the following:

- a stockholder rights plan (which is generally triggered when an entity, group or person acquires 15% or more of our common stock), which, in the event of a takeover attempt not approved by our Board of Directors, allows our stockholders to purchase our common stock, or the common stock of the acquiring entity, at a 50% discount;
- a staggered board of directors and limitations on the removal of directors, which may make the replacement of incumbent directors more time-consuming and difficult;

advance notice requirements for stockholder nominations of directors and stockholder proposals to be considered at stockholder meetings;

the obligation of the directors to consider a variety of factors (in addition to maximizing stockholder value) with respect to a proposed business combination or other change of control transaction;

the authority of the directors to classify or reclassify unissued shares and issue one or more series of common stock or preferred stock;

the authority to create and issue rights entitling the holders thereof to purchase from us shares of stock or other securities or property; and

limitations on the amendment of our charter and bylaws, the dissolution or change in control of our Company, and the liability of our directors and officers.

Selected Provisions of Maryland Law. The Maryland General Corporation Law prohibits business combinations between a Maryland corporation and an interested stockholder (which includes any person who beneficially holds ten percent or more of the voting power of the corporation's shares) or its affiliates for five years after becoming an interested stockholder and, after the five-year period, requires the recommendation of the board of directors and two super-majority stockholder votes to approve a business combination unless the stockholders receive a minimum price determined by the statute. As permitted by Maryland law, our charter exempts from these provisions any business combination between us and the Principals and their respective affiliates and related persons. Maryland

law also allows our Board of Directors to exempt particular business combinations before the interested stockholder becomes an interested stockholder. Furthermore, a person is not an interested stockholder if the transaction by which he or she would otherwise have become an interested stockholder is approved in advance by the board of directors.

The Maryland General Corporation Law also provides that the acquirer of certain levels of voting power in electing directors of a Maryland corporation, commencing at one-tenth or more, is not entitled to vote the shares in excess of the applicable threshold, unless voting rights for the shares are approved by holders of two-thirds of the disinterested shares or unless the acquisition of the shares has been specifically or generally approved or exempted from the statute by a provision in our charter or bylaws adopted before the acquisition of the shares. Our charter exempts from these provisions voting rights of shares owned by the Principals and their respective affiliates and related persons. Our bylaws also contain a provision exempting from this statute any acquisition by any person of shares of our stock. There can be no assurance that this bylaw will not be amended or eliminated in the future. The Maryland General Corporation Law also limits our ability to amend our charter, dissolve, merge, or sell all of our assets.

See also "Description of Our Capital Stock Stockholder Rights Plan, Selected Provisions of Maryland Law and of our Charter and Bylaws," which provides a more detailed summary of these and other provisions. For a complete description, we refer you to our charter, bylaws and stockholders rights agreement (all of which are incorporated by reference into the registration statement of which this prospectus is a part) and to the Maryland General Corporation Law.

Uninsured losses could adversely affect our financial condition.

Each of our Centers has comprehensive liability, fire, extended coverage and rental loss insurance with insured limits customarily carried for similar properties. We do not insure certain types of losses (such as losses from wars), because they are either uninsurable or not economically insurable. In addition, while we or the relevant joint venture, as applicable, carry earthquake insurance on the Centers located in California, the policies are subject to a deductible equal to 5% of the total insured value of each Center, a $100,000 per occurrence minimum and a combined annual aggregate loss limit of $200 million on these Centers. While we or the relevant joint venture also carries terrorism insurance on the Centers, the policies are subject to a $10,000 deductible and a combined annual aggregate loss limit of $300 million for certified acts of terrorism and a $10 million deductible and a combined annual aggregate loss limit of $200 million for non-certified acts of terrorism. Furthermore, we carry title insurance on many of the Centers for less than their full value. If an uninsured loss or a loss in excess of insured limits occurs, the operating partnership or the Property Partnership, as the case may be, that owns the affected Center could lose its capital invested in the Center, as well as the anticipated future revenue from the Center, while remaining obligated for any mortgage indebtedness or other financial obligations related to the Center. An uninsured loss or loss in excess of insured limits may negatively impact our financial condition.

As the general partner of the operating partnership and certain of the Property Partnerships, we are generally liable for any of their unsatisfied obligations other than non-recourse obligations.

FORWARD-LOOKING STATEMENTS

This prospectus and any prospectus supplement may contain or incorporate statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and, as such, involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by our use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend," "project," "predict," "plan," "seek" or the negative of these words, or other similar words or terms. You should be aware of important factors that may have a material impact on our future results. These factors include the matters described under the heading "Risk Factors" beginning on page 1 of this prospectus and the following, among other things:

- general industry, economic and business conditions (which will, among other things, affect demand for retail space or retail goods, availability and creditworthiness of current and prospective tenants, tenant bankruptcies, lease rates and terms, availability and cost of financing, interest rate fluctuations and operating expenses);
- adverse changes in the real estate markets, including, among other things, competition with other companies, retail formats and technologies and risks of real estate development, redevelopment, acquisitions and dispositions;
- governmental actions and initiatives (including legislative and regulatory changes);
- environmental and safety requirements; and
- terrorist activities that could adversely affect all of the above factors.

We undertake no obligation to publicly update or revise any forward-looking statements included or incorporated by reference in this prospectus or any prospectus supplement, whether as a result of new information, future events or otherwise. In light of the factors referred to above, the forward-looking events discussed in or incorporated by reference in this prospectus or any prospectus supplement may not occur, and actual results, performance or achievement may differ materially from that anticipated or implied in the forward-looking statements.

You should specifically consider the various factors identified in this prospectus, any prospectus supplement and the incorporated documents, which could cause actual results to differ, including particularly those discussed in the section entitled "Risk Factors" in this prospectus and in our other SEC filings. For information on how to obtain copies of our SEC filings, please refer to the section of this prospectus entitled "Where You Can Find More Information."

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement we filed with the SEC using a "shelf" registration process. The aggregate amount of common stock that we may sell under this prospectus may not exceed 1,961,345 shares, and the aggregate amount of Series D Preferred Stock that we may sell under this prospectus may not exceed 1,961,345 shares, in each case as adjusted for stock splits, stock dividends or similar transactions. We may sell any number of these securities from time to time up to those respective amounts.

You should read this prospectus and any prospectus supplement together with the additional information described under the heading "Where You Can Find More Information." Unless the context otherwise requires, all references to the "Company," "us," "we" or "our" in this prospectus include The Macerich Company, those entities owned or controlled by The Macerich Company and predecessors of The Macerich Company.

OUR COMPANY

We are a real estate investment trust that primarily acquires, leases, manages, redevelops and develops regional malls located throughout the United States. We are the sole general partner of, and own a 82% interest in, The Macerich Partnership, L.P., which we refer to as the operating partnership. We conduct all of our operations through the operating partnership and our management companies. Together with our predecessors, we have been engaged in the shopping center business since 1965.

We are one of the largest mall operators in the United States, as measured by gross leaseable area. We own directly or through joint ventures 56 regional malls, 19 community shopping centers and two development properties, aggregating approximately 57 million square feet of gross leaseable area. As of March 31, 2003, our mall and freestanding gross leaseable area occupancy rate was 92.5%, excluding major development and redevelopment properties.

We were organized as a Maryland corporation in September 1993. Our principal executive offices are located at 401 Wilshire Boulevard, No. 700, Santa Monica, California 90401, and our telephone number is (310) 394-6000.

USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the shares offered by this prospectus, but we or the operating partnership will acquire common units or Series D Preferred Units in the operating partnership from holders of those units who elect to redeem them for such shares. We intend to hold any common units or Series D Preferred Units which we acquire in the operating partnership.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERENCE DIVIDENDS

The following sets forth our consolidated ratios of earnings to combined fixed charges and preference dividends for our Company for each of the periods indicated:

Three months ended March 31, 2003	Year Ended December 31, 2002	2001	2000	1999	1998
1.53	1.50	1.52	1.34	2.03	1.54

We computed these ratios by dividing earnings by combined fixed charges and dividends paid on our Series A Preferred Stock and Series B Preferred Stock, the terms of which are described below. See "Description of our Capital Stock." For this purpose, earnings consist of income from continuing operations before minority interest, unconsolidated entities and cumulative effect of change in accounting principle, less the early extinguishment of debt plus gain (loss) on sale or writedown of assets. We further adjusted earnings by adding cash distributions from unconsolidated joint ventures and the management companies instead of the equity in their income and adding fixed charges net of capitalized interest. Fixed charges consist of interest expense, whether capitalized or expensed, and amortization of debt issuance costs.

DESCRIPTION OF OUR CAPITAL STOCK

The following description of the terms of our capital stock is only a summary. Our charter and bylaws may affect some of the terms of our capital stock. For a complete description of the terms of all of our capital stock, including our common stock, we refer you to the Maryland General Corporation Law, our charter and our bylaws. Our charter and bylaws are incorporated by reference as exhibits to the registration statement of which this prospectus is a part.

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Capitalization

Our charter authorizes us to issue up to 220,000,000 shares of capital stock, consisting of 145,000,000 shares of common stock, $.01 par value per share, 15,000,000 shares of preferred stock, $.01 par value per share, and 60,000,000 shares of excess stock, $.01 par value per share (the "Excess Shares"). We had 52,591,056 shares of common stock (including shares of unvested restricted common stock) outstanding as of July 10, 2003. In addition, as of July 10, 2003, 11,075,947 shares of our common stock were reserved for issuance upon conversion of our outstanding Series A, Series B and Series D Preferred Stock, 1,373,960 shares upon exercise of employee stock options and 13,672,693 shares upon conversion of OP units.

Our charter provides that our Board of Directors (as used in this prospectus, the term "Board of Directors" may include any of its duly authorized committees) may classify and reclassify any unissued shares of capital stock by setting or changing in any one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of the classified or reclassified shares of stock. The terms of any stock classified or reclassified by our Board of Directors in accordance with our charter will be set forth in Articles Supplementary filed with the State Department of Assessments and Taxation of Maryland prior to the issuance of any classified or reclassified stock.

We have authorized and issued 3,627,131 shares of Series A Cumulative Convertible Redeemable Preferred Stock, par value $.01 per share (the "Series A Preferred Stock"), and 5,487,471 shares of Series B Cumulative Convertible Redeemable Preferred Stock, par value $.01 per share (the "Series B Preferred Stock"). We also have authorized 1,961,345 shares of Series D Preferred Stock, par value $.01 per share, none of which are outstanding. The Series A Preferred Stock, the Series B Preferred Stock and the Series D Preferred Stock are all on a parity with each other and can each be converted into shares of our common stock based on a formula set forth in the applicable Articles Supplementary. As of the date of this prospectus, the conversion ratio is one-for-one for all three of these series of preferred stock. Rights of holders of these three series of preferred stock include dividend and liquidation preferences over the holders of our common stock and voting rights in some circumstances. The terms of the Series A Preferred Stock, Series B Preferred Stock, and Series D Preferred Stock, including the liquidation preference, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption are set forth in the applicable Articles Supplementary incorporated by reference as exhibits to our Annual Report on Form 10-K. See "Where You Can Find More Information."

In connection with our stockholder rights plan, we designated 1,500,000 shares of preferred stock as shares of Series C Junior Participating Preferred Stock, par value $0.01 per share (the "Series C Preferred Stock"), which may be issued to holders of rights if the rights become exercisable. Rights of holders of the Series C Preferred Stock include voting, dividend and liquidation preferences over the holders of our common stock. The Series C Preferred Stock is junior to the Series A Preferred Stock, Series B Preferred Stock and Series D Preferred Stock with respect to both dividend and liquidation preferences. The terms of the Series C Preferred Stock, including the liquidation preference, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption are set forth in the Articles Supplementary incorporated by reference as an exhibit to our Annual Report on Form 10-K. See "Where You Can Find More Information." As of the date of this prospectus, no Series C Preferred Stock is outstanding. See " Stockholder Rights Plan, Selected Provisions of Maryland Law and of our Charter and Bylaws."

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Issuance of Excess Shares

Our charter provides that in the event of a purported transfer of stock or other event that will, if effective, result in any of the following:

- a person owning stock in excess of the Ownership Limit or owning (directly or indirectly) more than a specified percentage of our common stock as determined in accordance with our charter (that person's "Percentage Limitation");

- our common stock and preferred stock being owned by fewer than 100 persons (determined without reference to any rules of attribution);

our becoming "closely held" under Section 856(h) of the Internal Revenue Code (determined without regard to Internal Revenue Code Section 856(h)(2) and by deleting the words "the last half of" in the first sentence of Internal Revenue Code Section 542(a)(2) in applying Internal Revenue Code Section 856(h)); or

our disqualification as a REIT (each a "Prohibited Event"),

the relevant stock will automatically be exchanged for Excess Shares, to the extent necessary to ensure that the purported transfer or other event does not result in a Prohibited Event. Outstanding Excess Shares will be held in trust. The trustee of the trust will be appointed by us and will be independent of us, any purported record or beneficial transferee and any beneficiary of such trust (the "Beneficiary"). The Beneficiary will be one or more charitable organizations selected by the trustee.

Our charter further provides that Excess Shares are entitled to the same dividends as the shares of stock exchanged for Excess Shares (the "Original Shares"). The trustee, as record holder of the Excess Shares, is entitled to receive all dividends and distributions in respect of the Excess Shares as may be authorized and declared by the Board of Directors and will hold the dividends or distributions in trust for the benefit of the Beneficiary. The trustee is also entitled to cast all votes that holders of the Excess Shares are entitled to cast. Excess Shares in the hands of the trustee will have the same voting rights as Original Shares. Upon our liquidation, dissolution or winding up, each Excess Share will be entitled to receive ratably with each other share of stock of the same class or series as the Original Shares, the assets distributed to the holders of the class or series of stock. The trustee will distribute to the purported transferee the amounts received upon our liquidation, dissolution or winding up, but only up to the amount paid by the purported transferee, or the market price for the Original Shares on the date of the purported transfer, if no consideration was paid by the transferee, and subject to additional limitations and offsets set forth in our charter.

If, after the purported transfer or other event resulting in an exchange of stock for Excess Shares, dividends or distributions are paid with respect to the Original Shares, then the dividends or distributions will be paid to the trustee for the benefit of the Beneficiary. While Excess Shares are held in trust, Excess Shares may be transferred by the trustee only to a person whose ownership of the Original Shares will not result in a Prohibited Event. At the time of any permitted transfer, the Excess Shares will be automatically exchanged for the same number of shares of the same type and class as the Original Shares. Our charter contains provisions that prohibit the purported transferee of the Excess Shares from receiving in return for the transfer an amount that reflects any appreciation in the Original Shares during the period that the Excess Shares were outstanding. Our charter requires any amount received by a purported transferee, in excess of the amount permitted to be received, to be paid to the Beneficiary.

Our charter further provides that we may purchase, for a period of 90 days during the time the Excess Shares are held in trust, all or any portion of the Excess Shares at the lesser of the price paid for the stock by the purported transferee (or if no consideration was paid, the market price at the time of such transaction) or the market price of the relevant shares as determined in accordance with our

charter. The 90-day period begins on the date of the prohibited transfer if the purported transferee gives notice to the Board of Directors of the transfer or, if no notice is given, the date the Board of Directors determines in good faith that a prohibited transfer has been made.

These provisions of our charter will not be automatically removed even if the REIT provisions of the Internal Revenue Code are changed so as to no longer contain any ownership concentration limitation or if the ownership concentration limitation is increased. Amendments to our charter require the affirmative vote of at least two-thirds of the shares entitled to vote. In addition to preserving our status as a REIT, the Ownership Limit may have the effect of precluding an acquisition of control of our Company without the approval of the Board of Directors.

All certificates representing shares of our common stock and our preferred stock bear a legend referring to the restrictions described above.

All persons who own, directly or by virtue of the attribution provisions of the Internal Revenue Code, more than 5% of our outstanding stock must file an affidavit with us containing the information specified in our charter within 30 days after January 1 of each year. In addition, these and other significant stockholders are required, upon demand, to disclose to us in writing the information with respect to their direct, indirect and constructive ownership of shares that our Board of Directors deems necessary to comply with the provisions of the Internal Revenue Code applicable to a REIT.

Restrictions on Transfer and Ownership

For us to qualify as a REIT under the Internal Revenue Code, all of the following conditions must be satisfied:

not more than 50% in value of our outstanding stock (after taking into account options to acquire stock) may be owned, directly or indirectly, by five or fewer "individuals" (as defined under the Internal Revenue Code to include some entities that would not ordinarily be considered "individuals") during the last half of a taxable year;

our stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year; and

specific percentages of our gross income must be from particular sources.

See "Federal Income Tax Considerations Taxation of the Company" and " Requirements for Qualification." Our charter restricts the ownership and transfer of shares of our stock.

Subject to exceptions specified in our charter, no stockholder may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than the Ownership Limit. The attribution provisions are complex and may cause stock owned directly or indirectly by a group of related individuals or entities to be deemed to be owned by one individual or entity. As a result, the acquisition of less than 5% in value or in number of shares of stock (or the acquisition of an interest in an entity which owns stock) by an individual or entity could cause that individual or entity (or another individual or entity) to be deemed to own in excess of 5% in value or in number of shares of our outstanding capital stock, and thus subject that stock to the Ownership Limit. The Board of Directors, in its sole discretion, may waive the Ownership Limit with respect to stockholders, but is under no obligation to do so. As a condition of a waiver of the Ownership Limit, the Board of Directors may require opinions of counsel satisfactory to it or an agreement from the applicant that the applicant will not act to threaten our REIT status. Our charter excludes from the Ownership Limit some persons and their respective families and affiliates, but provides that no excluded participant may own (directly or indirectly) more than the excluded participant's Percentage Limitation, as described under " Issuance of Excess Shares."

Our charter provides that any purported transfer or issuance of shares, or other event, will be null and void if it results in a Prohibited Event. The intended transferee or purported owner in a transaction that results in a Prohibited Event will not acquire, and will retain no rights to, or economic interest in, those shares of stock. See " Issuance of Excess Shares."

Stockholder Rights Plan, Selected Provisions of Maryland Law and of our Charter and Bylaws

In addition to the Ownership Limit, certain provisions of our charter and bylaws, as well as our stockholder rights plan, may delay, defer or prevent a change of control or other transaction in which holders of some, or a majority, of our common stock might receive a premium for their common stock over the then prevailing market price or which such holders might believe to be otherwise in their best interests. The following paragraphs summarize a number of these provisions, as well as selected provisions of the Maryland General Corporation Law. This summary is not complete. For a complete description, we refer you to our charter, bylaws and stockholders rights agreement (all of which are incorporated by reference into the registration statement of which this prospectus is a part) and to the Maryland General Corporation Law.

Stockholder Rights Plan

On November 10, 1998, we adopted a preferred share purchase rights plan (the "Rights Plan") and authorized a dividend distribution of one preferred share purchase right on each outstanding share of our common stock.

The Rights Plan is designed to give the Board of Directors the time and opportunity to protect stockholder interests and encourage equal treatment of all stockholders in a takeover situation. The Rights Plan provides for a trigger percentage of 15% (with certain exceptions). In the event of a takeover attempt not approved by our Board of Directors, the holders of the rights may exercise them to purchase our common stock at a 50% discount or, in the event of a "squeeze out" transaction where we would not be the surviving entity, acquire stock of the acquiror at a 50% discount.

Staggered Board of Directors

Under our charter, the number of our directors currently eight may be established in accordance with our bylaws. The charter also provides that the directors are divided into three classes. Directors hold office for a term of three years and until their successors are duly elected and qualify. The classification of our Board of Directors may make the replacement of incumbent directors more time-consuming and difficult.

Advance Notice of Director Nominations and New Business; Procedures for Special Meetings Requested by Stockholders

Our charter and bylaws provide that for any stockholder proposal to be presented in connection with an annual meeting or special meeting of our stockholders, including a proposal to nominate a director, the stockholder must have given timely written notice of the proposal to the Secretary. The bylaws provide that nominations to the Board of Directors and the proposal of business to be considered by stockholders at the annual meeting of stockholders may be made only:

- pursuant to our notice of the meeting;
- by or at the direction of the Board of Directors; or
- by a stockholder who is entitled to vote at the meeting and has complied with the advance notice procedures, including minimum and maximum time periods, set forth in our charter and bylaws.

Our bylaws also provide that only the business specified in our notice of meeting may be brought before a special meeting of stockholders. Nominations of persons for election to the Board of Directors at a special meeting of stockholders may be made only:

- pursuant to our notice of the meeting;
- by or at the direction of the Board of Directors; or
- if the Board of Directors has determined that directors shall be elected at such meeting, by a stockholder who is entitled to vote at the meeting and has complied with the advance notice provisions, including minimum and maximum time periods, set forth in our charter or bylaws.

Our bylaws also contain special procedures applicable to a special meeting of stockholders that is called at the request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at the meeting.

Exemptions for the Principals from the Maryland Business Combination Law

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns ten percent or more of the voting power of the corporation's shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding voting stock of the corporation.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by two super-majority stockholder votes, unless, among other conditions, the holders of the corporation's common stock receive a minimum price, as defined by Maryland law, for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its common stock. None of these provisions of Maryland law will apply, however, to business combinations that are approved or exempted by the board of directors of the corporation before the time that the interested stockholder becomes an interested stockholder. Furthermore, a person is not an interested stockholder if the transaction by which he or she would otherwise have become an interested stockholder is approved in advance by the board of directors.

As permitted by Maryland law, our charter exempts from these provisions any business combination between us and the Principals and their respective affiliates or related persons. As a result, these persons may be able to enter into business combinations with us that may not be in the best interest of our stockholders without compliance with the super-majority vote requirements and the other provisions of the statute.

Non-Stockholder Constituencies

Under our charter, for the purpose of determining our Company's and our stockholders' best interests with respect to a proposed business combination or other transaction involving a change of control of our Company, our Board of Directors must give due consideration to all relevant factors, including, without limitation, the interests of our employees, the economy, community and societal

interests and our Company's and our stockholders' long-term as well as short-term interests, including the possibility that these interests may be best served by our continued independence.

Other Provisions of our Charter

Our charter authorizes our Board of Directors to classify and reclassify unissued shares and issue one or one or more series of common stock or preferred stock and authorizes the creation and issuance of rights entitling holders thereof to purchase from us shares of stock or other securities or property.

Control Share Acquisitions

Maryland law provides that the acquirer of certain levels of voting power in electing directors of a Maryland corporation, commencing at one-tenth or more, is not entitled to vote the shares in excess of the applicable threshold unless voting rights for the shares are approved by holders of two-thirds of the disinterested shares or unless the acquisition of the shares has been specifically or generally approved or exempted from the statute by a provision in the corporation's charter or bylaws adopted before the acquisition of the shares. Our charter exempts from these provisions voting rights of shares owned by the Principals and their respective affiliates and related persons. Our bylaws also contain a provision exempting from this statute any acquisition by any person of shares of our stock. There can be no assurance that this bylaw will not be amended or eliminated in the future.

Amendment to our Charter and Bylaws

Amendments to our charter require the affirmative vote of holders of not less than two-thirds of all the votes entitled to be cast on the matter. Our Board of Directors has the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

Director Removal

Subject to the rights of holders of any series of preferred stock, our charter provides that a director may be removed only for cause and only by the affirmative vote of the holders of shares entitled to cast at least two-thirds of the votes entitled to be cast generally in the election of directors.

Dissolution of our Company

Dissolution of our Company must be approved by the affirmative vote of not less than a majority of all of the votes entitled to be cast on the matter.

Supermajority Vote for Extraordinary Corporate Actions

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, or engage in a share exchange or in similar transactions outside the ordinary course of business unless approved by the corporation's board of directors and the affirmative vote of holders of at least two-thirds of the votes entitled to be cast on the matter, unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation's charter. Except for Article Ninth of our charter, which provides that our Company is subject to dissolution at any time by the vote of holders of a majority of our outstanding common stock entitled to vote on the matter, our charter does not provide for a lesser percentage in these situations.

Limitation of Liability of Directors

Our charter includes provisions that limit the liability of our directors and officers to us and to our stockholders for money damages to the fullest extent permitted under Maryland law. Our charter also requires us to indemnify our present and former directors and officers to the maximum extent permitted under Maryland law. In addition, we have entered into indemnification agreements with some of our officers and directors.

DESCRIPTION OF OUR COMMON STOCK

Subject to the provisions of our charter regarding Excess Shares (as described above), the holders of our common stock have full voting rights, one vote for each share held of record. Subject to the provisions of our charter regarding Excess Shares and the rights of holders of preferred stock, holders of our common stock are entitled to receive the dividends authorized by our Board of Directors out of funds legally available for this purpose. Upon our liquidation, dissolution or winding up (but subject to the provisions of our charter and the rights of holders of preferred stock), the assets legally available for distribution to holders of our common stock will be distributed ratably among the holders of our common stock. Except as set forth in our stockholder rights plan, holders of our common stock have no preemptive or other subscription or conversion rights and no liability for further calls upon shares. See "Description of our Capital Stock Stockholder Rights Plan, Selected Provisions of Maryland Law and of our Charter and Bylaws." Our common stock is not subject to assessment.

The transfer agent and registrar for our common stock is Equiserve Trust Company, N.A.

Under Maryland law and our bylaws, stockholders are entitled to receive prior notice of our annual and special meetings of stockholders. Notice is given to a stockholder when it is personally delivered to him or her, left at his or her residence or usual place of business, mailed to him or her at his or her address as it appears on our records or transmitted to him or her by electronic mail or other electronic means.

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business unless approved by the corporation's board of directors and by the affirmative vote of holders of at least two-thirds of the votes entitled to be cast on the matter, unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation's charter. Except for Article Ninth of our charter, which provides that our Company is subject to termination at any time by the holders of a majority of the outstanding common stock entitled to vote on the matter, our charter does not provide for a lesser percentage in these situations.

DESCRIPTION OF OUR SERIES D PREFERRED STOCK

THIS SECTION DESCRIBES THE MATERIAL TERMS AND PROVISIONS OF THE SERIES D PREFERRED STOCK. THIS DESCRIPTION IS NOT COMPLETE, AND YOU SHOULD REFER TO THE MARYLAND GENERAL CORPORATION LAW, OUR CHARTER AND OUR BYLAWS FOR MORE INFORMATION. OUR CHARTER AND BYLAWS ARE INCORPORATED BY REFERENCE INTO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS IS A PART.

Rank

The Series D Preferred Stock ranks, with respect to payment of dividends and amounts upon voluntary or involuntary liquidation, dissolution or winding-up of our Company, as follows:

senior to all classes or series of common stock and to all capital stock of our Company the terms of which provide that such capital stock shall rank junior to the Series D Preferred Stock;

on a parity with the Series A Preferred Stock, the Series B Preferred Stock and each other series of our preferred stock that does not provide by its express terms that it ranks senior or junior in right of payment to the Series D Preferred Stock with respect to payment of dividends or amounts upon liquidation, dissolution or winding-up; and

junior to any class or series of capital stock issued by us that ranks senior to the Series D Preferred Stock.

Voting

Holders of shares of the Series D Preferred Stock will have the limited voting rights described below. We will not, without the affirmative vote or consent of the holders of at least a majority of the shares of Series D Preferred Stock outstanding at the time (such series voting separately as a class or voting as a single class with any other series of preferred stock which has the right to vote with the Series D Preferred Stock on such matter):

authorize, create or issue, or increase the authorized or issued amount of, any class or series of shares of capital stock ranking senior to the Series D Preferred Stock with respect to the payment of dividends or the distribution of assets upon voluntary or involuntary liquidation, dissolution or winding-up of our Company, or reclassify any authorized shares of capital stock into such capital stock, or create, authorize or issue any obligation or security convertible or exchangeable into or evidencing the right to purchase any such capital stock; or

amend, alter or repeal the provisions of our charter or the Articles Supplementary with respect to the Series D Preferred Stock, whether by merger or consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series D Preferred Stock or the holders thereof.

Certain events are described in the Articles Supplementary that are deemed not to materially and adversely affect any such right, preference, privilege or voting power or otherwise require the vote or consent of the holders of the Series D Preferred Stock. Each share of Series D Preferred Stock has one vote per share, except that when any other series of preferred stock has the right to vote with the Series D Preferred Stock as a single class on any matter, then the Series D Preferred Stock and such other series has with respect to such matters one vote per $36.55 of stated liquidation preference, subject to certain adjustments.

Dividends

With respect to each dividend period and subject to the rights of the holders of shares of preferred stock ranking senior to or on parity with the Series D Preferred Stock, the holders of shares of Series D Preferred Stock are entitled to receive, when, as and if authorized by the Board of Directors, quarterly cumulative cash dividends in an amount per share of Series D Preferred Stock equal to the greater of:

$0.6725; and

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the amount of the regular quarterly cash dividends for such dividend period upon the number of shares of common stock (or portion thereof) into which such Series D Preferred Stock is then convertible.

No dividends on the Series D Preferred Stock will be authorized by the Board of Directors or set apart for payment at such time as the terms of any agreement of our Company, including any debt instrument, prohibits such authorization, payment or setting apart for payment or would constitute a breach or a default, or if such authorization or payment is restricted or prohibited by law. However, dividends on the Series D Preferred Stock will accumulate whether or not any of these restrictions exist.

So long as any Series D Preferred Stock is outstanding, (i) no dividends (other than in common stock or other capital stock ranking junior to the Series D Preferred Stock) will be declared or paid upon the common stock or any other capital stock ranking junior to or on a parity with the Series D Preferred Stock, and (ii) no common stock or other capital stock ranking junior to or on a parity with the Series D Preferred Stock will be redeemed, purchased or otherwise acquired for any consideration by us (except as expressly permitted in our charter or the Articles Supplementary with respect to the Series D Preferred Stock), unless, in the case of either clause (i) or (ii), full cumulative dividends have been or contemporaneously are authorized and paid or authorized and set apart for such payment on the Series D Preferred Stock for all dividend periods ending on or prior to the applicable dividend, redemption, purchase or acquisition date.

When dividends are not paid in full (or a sum sufficient for such full payment is not set apart for such payment) upon the Series D Preferred Stock and any other capital stock ranking on a parity as to payment of dividends with the Series D Preferred Stock, all dividends declared upon the Series D Preferred Stock and any other capital stock ranking on a parity as to payment of dividends with the Series D Preferred Stock will be declared pro rata so that the amount of dividends declared per share of Series D Preferred Stock and such other capital stock will in all cases bear to each other the same ratio that accrued dividends per share on the Series D Preferred Stock and such other capital stock bear to each other (not including any accumulation in respect of unpaid dividends for prior dividend periods if such capital stock does not have a cumulative dividend).

Liquidation Preference

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of our Company, before any payment or distribution of our assets is made to or set apart for the holders of common stock or any other capital stock ranking junior to the Series D Preferred Stock, the holders of shares of the Series D Preferred Stock are entitled to receive, out of our assets available for distribution to stockholders after payment or provision for payment of all debts and subject to the prior preferences or the rights of any series of stock ranking senior to the Series D Preferred Stock, an amount equal to $36.55, plus an amount equal to all dividends (whether or not earned or authorized) accrued and unpaid thereon to the date of final distribution. If our assets, or the proceeds thereof, are insufficient to pay in full the preferential amount on the Series D Preferred Stock and any other capital stock ranking on a parity with the Series D Preferred Stock with respect to payments on liquidation, dissolution or winding-up of our Company, then such assets, or the proceeds thereof, will be distributed among the holders of Series D Preferred Stock and any such other parity stock ratably in accordance with their respective amounts.

Conversion

Subject to the limitations set forth in the applicable Articles Supplementary, holders of shares of Series D Preferred Stock have the right to convert all or any portion of such shares into shares of our

common stock in accordance with certain procedures. Each share of Series D Preferred Stock will be convertible into the number of shares of our common stock determined by dividing:

$36.55 plus an amount equal to all dividends (whether or not earned or declared) accrued and unpaid thereon to the end of the last dividend period ending prior to the conversion by

$36.55, subject to adjustment in the event of certain dilutive or other capital events described in the Articles Supplementary with respect to the Series D Preferred Stock.

This right exists whether or not all accrued dividends have been paid. Upon conversion of the Series D Preferred Stock, accrued but unpaid dividends will be included in calculations determining the number of securities that a holder of Series D Preferred Stock will receive.

The Series D Preferred Stock and any shares of common stock we issue upon conversion of the Series D Preferred Stock will be subject to the ownership restrictions and limitations set forth in Article Eighth of our charter, which is incorporated by reference into the registration statement of which this prospectus is a part. See "Description of our Capital Stock."

REDEMPTION OF SERIES D PREFERRED UNITS AND COMMON UNITS; CONVERSION OF SERIES D PREFERRED STOCK

Holders of Series D Preferred Units

Subject to the limitations set forth in the Partnership Agreement, you have the right to redeem your Series D Preferred Units in whole or in part for an equal number of shares of our Series D Preferred Stock, subject to adjustment in the event of certain dilutive or other capital events. We have the right to pay you $36.55 plus accrued and unpaid dividends with respect to each Series D Preferred Unit you tender for redemption instead of issuing Series D Preferred Stock to you.

Holders of Series D Preferred Stock

Subject to the limitations set forth in the applicable Articles Supplementary, if you receive any Series D Preferred Stock, you will have the right to convert all or any portion of those shares into shares of our common stock. For more information, see "Description of our Series D Preferred Stock Conversion."

Holders of Common Units

Subject to the limitations set forth in the Partnership Agreement, if you receive any common units, you will have the right to redeem those common units in whole or in part for an equal number of shares of our common stock, subject to adjustment in the event of certain dilutive or other capital events. We have the right to pay you an amount of cash equal to the value of the common stock otherwise issuable to you upon tender of your common units, as determined in accordance with the Partnership Agreement, instead of issuing our common stock to you.

Redemption and Conversion Procedures

You may exercise the right to redeem your OP units or Series D Preferred Stock by providing to us an appropriate notice, as described in the Partnership Agreement or the Articles Supplementary classifying and designating the Series D Preferred Stock, respectively. You may also be required to furnish certain other certificates and forms. The Partnership Agreement and the Articles Supplementary establish some limitations on your right to redeem your OP units or convert your Series D Preferred Stock, respectively.

Once we receive a notice of redemption with respect to your OP units, we will determine whether to redeem the tendered OP units for cash or for shares of Series D Preferred Stock or common stock, as applicable. Any shares of Series D Preferred Stock or common stock that we issue will be validly issued, fully paid and nonassessable.

When you redeem your OP units or convert your Series D Preferred Stock, your right to receive distributions on the OP units or Series D Preferred Stock so redeemed or converted will cease, unless the record date for a distribution was a date before the redemption or conversion date. However, if you convert your Series D Preferred Stock between the close of business on the record date for a distribution and the opening of business on the corresponding distribution date, you must pay to us an amount equal to the distribution amount payable on the distribution date. No redemption or conversion caH="10%" ALIGN="RIGHT">5,853,469 5,190,541 Repayments of warehouse lines of credit (5,892,278) (4,984,897) Principal payments on long-term obligations (12,859) (38,344) Purchase of treasury stock (927,059) (1,488,427) Issuance of common stock, net of withholding taxes 49,785 47,362 Redemption of preferred stock (655,727) Preferred dividends (7,938) Excess tax benefits from stock-based awards 14,144 Other, net 22,035 (42,062)

Net cash used in financing activities attributable to continuing operations (891,949) (1,899,492)

Total cash provided by (used in) continuing operations 62,091 (763,913)

Net cash (used in) provided by operating activities attributable to discontinued operations (3,537) 753,445 Net cash used in investing activities attributable to discontinued operations (104) (19,062) Net cash used in financing activities attributable to discontinued operations (38,717)

Total cash (used in) provided by discontinued operations (Revised-See Note 2)	(3,641)	695,666
Effect of exchange rate changes on cash and cash equivalents	23,327	(22,053)
Net increase (decrease) in cash and cash equivalents	81,777	(90,300)
Cash and cash equivalents at beginning of period	987,080	999,698
Cash and cash equivalents at end of period	$1,068,857	$909,398

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

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IAC/INTERACTIVECORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION

IAC/InterActiveCorp operates leading and diversified businesses in sectors being transformed by the internet, online and offline...our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. IAC operates a diversified portfolio of specialized and global brands in the following sectors:

Retailing, which includes the U.S and International reporting segments;

Services, which includes the Ticketing, Lending, Real Estate, Teleservices and Home Services reporting segments;

Media & Advertising; and

Membership & Subscriptions, which includes the Vacations, Personals and Discounts reporting segments.

IAC enables 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.

Prior to the commencement of trading 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 and investments as "Expedia." Immediately prior to the Spin-Off, IAC effected a one-for-two reverse stock split.

In June 2005, the Company sold its 48.6% ownership in EUVÍA. Additionally, TV Travel Shop ceased operations during the second quarter of 2005 and Quiz TV Limited, which was previously reported in our Emerging Businesses group, ceased operations during the second quarter of 2006.

Accordingly, discontinued operations in the accompanying consolidated statements of operations and cash flows include Expedia through August 8, 2005 and EUVÍA through June 2, 2005. TV Travel Shop and Quiz TV Limited are presented as discontinued operations in the accompanying consolidated balance sheet and consolidated statements of operations and cash flows for all periods presented. Further, all IAC common stock share information and related per share prices were adjusted to reflect IAC's one-for-two reverse stock split.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2005.

Accounting Estimates

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

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

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the provisions of 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 prior periods. See Note 3 for a further description of the impact of the adoption of SFAS 123R, Staff Accounting Bulletin No. 107 ("SAB 107"), and the Company's stock compensation plans.

Recent Accounting Pronouncements

On July 13, 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from SFAS No. 5, "Accounting for Contingencies."

FIN 48 utilizes a two-step process to evaluate tax positions. Recognition (step one) occurs when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) occurs only if it is determined that a tax position meets the more likely than not recognition threshold. Under step two, the tax position is measured to determine the amount of benefit to recognize in the financial statements. The tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, which is more likely than not to be realized on ultimate settlement. FIN 48's use of the term "more likely than not" in steps one and two is consistent with how that term is used in SFAS No. 109, "Accounting for Income Taxes."

FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The Company will adopt FIN 48 effective January 1, 2007 and is currently assessing its impact on the Company's consolidated financial position, results of operations and cash flows.

On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements and the effect of the measurements on earnings or changes in net assets. Among other things, SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier adoption is permitted. The cumulative effect of applying the provisions of SFAS No. 157 will be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The Company expects to adopt SFAS No. 157 effective January 1, 2008 and is currently assessing its impact on the Company's consolidated financial position, results of operations and cash flows.

Reclassifications

The accompanying consolidated balance sheet at December 31, 2005 and consolidated statements of operations for the three and nine months ended September 30, 2005 and cash flows for the nine months ended September 30, 2005 have been reclassified to present Quiz TV Limited as a discontinued operation. See Note 8 for a further description of discontinued operations. Amortization of cable distribution fees, which was reported separately in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2005, has been included in selling and marketing expense to conform with the current period presentation. Non-cash compensation expense, which was reported separately in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2005, has been reclassified to conform with the current period presentation. See Note 3 for a further description of this reclassification. The accompanying consolidated statement of cash flows for the nine months ended September 30, 2005 has also been revised to separately disclose the operating, investing and financing portions of cash flows attributable to the Company's discontinued operations. These amounts had previously been reported on a combined basis as a single amount. In addition, certain other prior period amounts have been reclassified to conform with the current period presentation.

NOTE 3 ADOPTION OF SFAS 123R AND STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted SFAS 123R and has applied the provisions of SAB 107 regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies in its adoption of SFAS 123R.

The adoption of SFAS 123R did not impact the amount of stock-based compensation expense recorded in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2006, since the Company had previously adopted the expense recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Under SFAS No. 123, the Company recognized expense for all stock-based compensation instruments granted or modified on or after January 1, 2003 and provided pro forma information in the notes to its consolidated financial statements to illustrate the effect on net earnings as if all stock-based compensation instruments granted prior to January 1, 2003 were being expensed. On August 9, 2005, the Company began recognizing expense for all stock-based compensation instruments granted prior to

January 1, 2003 due to the modification of all such instruments in connection with the Spin-Off. Prior to the adoption of SFAS 123R, the entire tax benefit from stock-based compensation was reported as a component of operating cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the stock-based compensation cost recognized in the consolidated statement of operations are reported as a component of financing cash flows. For the nine months ended September 30, 2006, excess tax benefits from stock-based compensation of $14.1 million are included as a component of financing cash flows. For the nine months ended September 30, 2005, excess tax benefits from stock-based compensation of $27.4 million are included as a component of operating cash flows.

The following table illustrates the effect on net earnings available to common shareholders and net earnings per share as if the fair value-based method under SFAS No. 123 had been applied to all outstanding and unvested awards for the three and nine months ended September 30, 2005:

	Three months ended September 30, 2005	Nine months ended September 30, 2005
	(In thousands, except per share data)	
Net earnings available to common shareholders, as reported	$ 68,077	$ 755,145
Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effects	37,510	104,727
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(17,338)	(86,794)
Pro forma net earnings available to common shareholders	$ 88,249	$ 773,078
Net earnings per share available to common shareholders:		
Basic as reported	$ 0.21	$ 2.27
Basic pro forma	$ 0.27	$ 2.33
Diluted as reported	$ 0.20	$ 2.12
Diluted pro forma	$ 0.25	$ 2.17

Pro forma information is determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value-based method. The fair value for these options was estimated at the grant date using a Black-Scholes option pricing model. In addition, the deduction line item in the table above included in the determination of pro forma expense for the three and nine months ended September 30, 2005, includes a favorable adjustment of $20.6 million due to the cumulative effect of the change in the Company's estimate related to the number of stock-based awards that were expected to vest. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis.

IAC currently has three active plans under which future awards may be granted, all of which currently cover outstanding stock options to acquire shares of IAC common stock, restricted stock units ("RSUs") and restricted stock, as well as provide for the future grant of these and other equity awards. These plans are: the IAC 2005 Stock and Annual Incentive Plan, the Amended and Restated IAC 2000 Stock and Annual Incentive Plan and the IAC 1997 Stock and Annual Incentive Plan.

Each active plan has a stated term of ten years and provides that the exercise price of stock options granted will not be less than the market price of the Company's common stock on the grant date. The plans do not specify grant dates or vesting schedules as those determinations have been delegated to the Compensation and Human Resources Committee of IAC's Board of Directors (the "Committee"). Each grant agreement reflects the vesting schedule for that particular grant as determined by the Committee. Stock option awards to date have generally vested in equal annual installments over a four-year period, and RSU awards to date have generally vested in equal annual installments over a five-year period, in each case, from the grant date. In addition to equity awards outstanding under the three active plans discussed above, stock options and other equity awards outstanding under terminated plans and plans assumed in acquisitions are reflected in the information set forth below.

The following table summarizes non-cash stock-based compensation expense related to stock options, restricted stock and RSUs for the three and nine months ended September 30, 2006 and 2005 which was classified as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Cost of sales product sales	$ 22	$ 25	$ 92	$ 67
Cost of sales service revenue	1,271	3,125	5,305	5,181
Selling and marketing expense	1,415	1,503	5,907	3,193
General and administrative expense	15,353	80,082	59,360	105,240
Other operating expense	31	40	108	97
Non-cash stock-based compensation expense before income taxes	18,092	84,775	70,772	113,778
Income tax benefit	(6,027)	(23,065)	(24,297)	(32,328)
Non-cash stock-based compensation expense after income taxes	$ 12,065	$ 61,710	$ 46,475	$ 81,450

The amount of stock-based compensation expense recognized in the consolidated statement of operations is reduced by estimated forfeitures, as the amount recorded is based on awards ultimately expected to vest. The forfeiture rate is estimated at the grant date based on historical experience and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate.

In connection with the Spin-Off, all outstanding share-based compensation instruments of the Company were modified. Accordingly, on August 9, 2005, the Company recorded a pre-tax modification charge of $67.0 million related to the treatment of vested stock options.

As of September 30, 2006, there was approximately $257.3 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards. This cost is expected to be recognized over a weighted-average period of approximately 3.2 years.

Stock Options

A summary of changes in outstanding stock options is as follows:

	September 30, 2006			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(Shares and intrinsic value in thousands)			
Outstanding at beginning of year	31,815	$ 19.73		
Granted				
Exercised	(4,690)	12.79		
Forfeited or expired	(602)	26.11		
Outstanding at end of period	26,523	$ 20.80	4.1	$ 276,828
Options exercisable	20,379	$ 17.26	2.8	$ 255,718
Available for grant	16,628			

The fair value of each stock option award is estimated on the grant date using the Black-Scholes option pricing model. There were no stock options granted by the Company during the nine months ended September 30, 2006. Approximately 12.8 million stock options were granted by the Company during the nine months ended September 30, 2005, including stock options assumed in acquisitions.

The Black-Scholes option pricing model incorporates various assumptions, including expected volatility and expected term. For purposes of this model, no dividends have been assumed. Expected stock price volatilities are estimated based on the Company's historical volatility. The risk-free interest rates are based on U.S. Treasury yields for notes with comparable terms as the awards, in effect at the grant date. The expected term of options granted is based on analyses of historical employee termination rates and option exercise patterns, giving consideration to expectations of future employee behavior. The following are the weighted average assumptions used in the Black-Scholes option pricing model for the nine months ended September 30, 2005: volatility factor of 42%, risk-free interest rate of 4.1%, expected term of 6.5 years and a dividend yield of zero.

The weighted average fair value of stock options assumed in connection with acquisitions during the nine months ended September 30, 2005, based on market prices equal to IAC's common stock on the assumption date, was $24.48.

In June 2005, the Company granted stock options to its Chairman with exercise prices greater than market value on the date of grant, a 10-year term, cliff vesting at the end of five years, and accelerated vesting upon certain terminations of employment or upon a change of control. The weighted average exercise price and the weighted average fair value related to these grants were $40.12 and $27.90, respectively.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between IAC's closing stock price on the last trading day of the third quarter of 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2006.

This amount changes based on the fair market value of IAC's common stock. The total intrinsic value of stock options exercised during the nine months ended September 30, 2006 and 2005 was $75.0 million and $268.3 million, respectively.

Cash received from stock option exercises and the related actual tax benefit realized for the nine months ended September 30, 2006 were $60.0 million and $17.7 million, respectively. Cash received from stock option exercises and the related actual tax benefit realized for the nine months ended September 30, 2005 were $80.7 million and $37.8 million, respectively.

The following table summarizes the information about stock options outstanding and exercisable as of September 30, 2006.

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	**Outstanding at September 30, 2006**	**Weighted Average Remaining Contractual Life in Years**	**Weighted Average Exercise Price**	**Exercisable at September 30, 2006**	**Weighted Average Exercise Price**
			(Shares in thousands)		
$0.00 to $10.00	2,121	4.7	$ 5.62	1,511	$ 4.90
$10.01 to $20.00	12,021	1.8	11.57	11,655	11.44
$20.01 to $30.00	5,738	5.5	25.16	4,744	25.15
$30.01 to $40.00	4,617	7.1	34.06	1,843	32.39
$40.01 to $50.00	1,889	7.3	47.38	489	45.90
$50.01 to $60.00	76	3.2	51.80	76	51.80
$60.01 to $70.00	10	3.4	68.17	10	68.17
$70.01 to $80.00	3	3.2	72.37	3	72.37
$80.01 to $90.00	8	3.3	84.18	8	84.18
$90.01 to $105.00	40	3.1	102.09	40	102.09
	26,523	4.1	$ 20.80	20,379	$ 17.26

Restricted Stock and Restricted Stock Units

RSUs are awards in the form of phantom shares or units, denominated in a hypothetical equivalent number of shares of IAC common stock and with the value of each RSU equal to the fair value of IAC common stock at the date of grant. RSUs may be settled in cash, stock or both, as determined by the Committee at the time of grant. However, under the terms of outstanding IAC RSU awards, at time of vest, all awards to non-U.S. employees are to be settled in cash. The Company follows the guidance of SFAS 123R and accounts for these awards to non-U.S. employees as liabilities which are marked to market each reporting period through earnings. At both September 30, 2006 and December 31, 2005, approximately 0.3 million international awards were outstanding, respectively. Cash payments related to international awards totaled $1.9 million and $2.8 million for the nine months ended September 30, 2006 and 2005, respectively. Each restricted stock and RSU grant is subject to service-based vesting, where a specific period of continued employment must pass before an award vests, and certain grants also include performance-based vesting, where certain performance targets set at the time of grant must be achieved before an award vests. The Company recognizes expense for all restricted stock and RSUs. For restricted stock and RSU grants to U.S. employees, the accounting charge is measured at the grant date as the fair value of IAC common stock and expensed ratably as non-cash compensation over the vesting term. The expense associated with RSU awards to non-U.S. employees is initially measured at fair value at the grant date and expensed ratably over the vesting term, subject to mark-to-market adjustments for changes in the price of IAC common stock, as compensation expense within general and administrative expense.

Nonvested restricted stock and RSUs as of September 30, 2006 and changes during the nine months ended September 30, 2006 were as follows:

	Restricted Stock		RSUs	
	Number of shares	**Weighted Average Grant Date Fair Value**	**Number of shares**	**Weighted Average Grant Date Fair Value**
	(Shares in thousands)			
Outstanding at beginning of year	142	$ 10.76	6,048	$ 28.94
Granted	200	28.31	4,173	27.75
Vested	(104)	11.50	(1,232)	28.71
Forfeited	(3)	23.89	(1,070)	28.96
Outstanding at end of period	235	$ 25.22	7,919	$ 28.35

The weighted average fair value of restricted stock and RSUs granted during the nine months ended September 30, 2006 and 2005 based on market prices of IAC's common stock on the grant date was $27.78 and $26.72, respectively. The total intrinsic value of restricted stock and RSUs that vested during the nine months ended September 30, 2006 and 2005 was $38.4 million and $48.5 million, respectively. The total fair value of restricted stock and RSUs that vested during the nine months ended September 30, 2006 and 2005 was $36.6 million and $57.5 million, respectively.

In connection with the acquisitions of certain of its operating subsidiaries, and the funding of certain start-up businesses, IAC has granted restricted equity in the relevant business to certain members of the business' management. These equity awards vest over a period of years or upon the occurrence of certain prescribed events. When acquiring or funding these entities, IAC has taken a preferred interest in the entity with a face value equal to the acquisition price or its investment cost, which accretes paid-in-kind dividends at a prescribed rate of return. The value of the management equity awards is tied to the value of the common stock, with management as a whole generally receiving a small minority of the total common stock outstanding. Accordingly, these minority interests only have value to the extent the relevant business appreciates at a greater rate than the relevant preferred dividend, but can have significant value in the event of significant appreciation. The interests are ultimately settled through varying put/call arrangements or settled on fixed dates in common stock or cash at the option of IAC, with fair market value determined by negotiation or arbitration. The expense associated with these equity awards is initially measured at fair value at the grant date and is amortized ratably as non-cash compensation over the vesting term.

Effective January 1, 2006, the founder and Chief Executive Officer of LendingTree was promoted to President and Chief Operating Officer of IAC ("COO"). In connection with his promotion, a portion of the COO's existing LendingTree equity awards were exchanged for IAC restricted shares. The IAC shares will vest if certain service and performance conditions as set by the Committee are met. The total incremental compensation cost resulting from this modification was $8.7 million which will be recognized over the vesting period. For the three and nine months ended September 30, 2006, $1.1 million and $3.2 million, respectively, of the incremental compensation cost associated with the modification was recognized in the accompanying consolidated statements of operations.

NOTE 4 GOODWILL AND INTANGIBLE ASSETS

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

	September 30, 2006	December 31, 2005
Goodwill	$ 7,259,002	$ 7,351,700
Intangible assets with indefinite lives	1,127,764	1,042,558
Intangible assets with definite lives, net	387,258	515,630
Total goodwill and intangible assets, net	$ 8,774,024	$ 8,909,888

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At September 30, 2006, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Distribution agreements	$ 237,546	$ (198,880)	$ 38,666	5.0
Purchase agreements	306,999	(193,899)	113,100	6.8
Customer lists	197,494	(97,248)	100,246	7.8
Technology	204,582	(113,644)	90,938	4.3
Merchandise agreements	44,957	(34,119)	10,838	5.6
Other	75,064	(41,594)	33,470	4.5
Total	$ 1,066,642	$ (679,384)	$ 387,258	

At December 31, 2005, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Distribution agreements	$ 244,798	$ (177,146)	$ 67,652	5.0
Purchase agreements	304,911	(161,988)	142,923	6.8
Customer lists	197,084	(70,951)	126,133	7.6
Technology	212,282	(84,297)	127,985	4.3
Merchandise agreements	44,957	(27,359)	17,598	5.7
Other	76,911	(43,572)	33,339	3.1
Total	$ 1,080,943	$ (565,313)	$ 515,630	

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2005 balances, such amortization for the next five years and thereafter is estimated to be as follows (in thousands):

Year Ending December 31,	
2006	$ 161,205
2007	111,528
2008	86,647
2009	66,386
2010	43,730
2011 and thereafter	46,134
	$ 515,630

The following table presents the balance of goodwill by segment, including changes in the carrying amount of goodwill, for the nine months ended September 30, 2006 (in thousands):

	Balance as of January 1, 2006	Additions	(Deductions)	Foreign Exchange Translation	Balance as of September 30, 2006
Retailing:					
U.S.	$ 2,889,010	$ 56,602	$ (9,379)	$	$ 2,936,233
International	110,090			7,844	117,934
Total Retailing	2,999,100	56,602	(9,379)	7,844	3,054,167
Services:					
Ticketing	1,055,346	5,778	(3,652)	5,703	1,063,175
Lending	516,430	1,329	(3,010)		514,749
Real Estate	66,009	3,412	(358)		69,063
Teleservices	129,346				129,346
Home Services	101,330	159	(724)		100,765
Total Services	1,868,461	10,678	(7,744)	5,703	1,877,098
Media & Advertising	1,538,998	10,052	(191,422)		1,357,628
Membership & Subscriptions:					
Vacations	467,504	2,383	(250)		469,637
Personals	220,895		(5,626)	566	215,835
Discounts	256,742	60	(1,011)		255,791
Total Membership & Subscriptions	945,141	2,443	(6,887)	566	941,263
Emerging Businesses		28,846			28,846
Total	$ 7,351,700	$ 108,621	$ (215,432)	$ 14,113	$ 7,259,002

Additions principally relate to acquisitions. Deductions principally relate to the establishment of a deferred tax asset related to purchased net operating losses, adjustments to the carrying value of goodwill based upon the finalization of the valuation of intangible assets and their related deferred tax impacts and the income tax benefit realized pursuant to the exercise of stock options assumed in business acquisitions that were vested at the transaction date and are treated as a reduction in goodwill when the income tax deductions are realized.

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

The balance of property, plant and equipment, net is as follows (in thousands):

	September 30, 2006	December 31, 2005
Computer and broadcast equipment	$ 861,458	$ 786,457
Buildings and leasehold improvements	189,783	187,439
Furniture and other equipment	186,601	152,758
Projects in progress	151,965	104,096
Land	19,652	20,620
	1,409,459	1,251,370
Less: accumulated depreciation and amortization	(799,060)	(684,380)
Total property, plant and equipment, net	$ 610,399	$ 566,990

NOTE 6 SEGMENT INFORMATION

The overall concept that IAC employs in determining its operating segments is to present the financial information in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of products or services offered or the target market. As described in Note 1 and further in Note 8, Quiz TV Limited, Expedia, EUVÍA, TV Travel Shop, Styleclick, ECS and Avaltus are presented as discontinued operations and, accordingly, are excluded from the tables below.

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Revenue:				
Retailing:				
U.S.	$ 686,189	$ 664,290	$ 2,055,625	$ 1,829,358
International	82,534	85,234	257,040	280,652
Total Retailing	768,723	749,524	2,312,665	2,110,010
Services:				
Ticketing	265,462	227,517	806,282	696,654
Lending	106,041	109,422	327,912	266,757
Real Estate	15,888	16,299	42,342	43,003
Teleservices	106,095	87,440	302,707	241,549
Home Services	18,460	12,205	48,394	30,504
Total Services	511,946	452,883	1,527,637	1,278,467
Media & Advertising	135,488	83,471	384,386	103,967
Membership & Subscriptions:				
Vacations	72,916	66,074	228,345	208,905
Personals	80,239	65,990	231,799	181,339
Discounts	32,047	30,797	75,480	88,463
Intra-sector elimination	(61)	(46)	(930)	(775)
Total Membership & Subscriptions	185,141	162,815	534,694	477,932
Emerging Businesses	6,915	4,063	18,038	6,862
Intersegment elimination (a)	(5,242)	(8,322)	(14,776)	(28,595)
Total	$ 1,602,971	$ 1,444,434	$ 4,762,644	$ 3,948,643

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Operating Income (Loss):				
Retailing:				
U.S.	$ 50,347	$ 41,072	$ 142,858	$ 127,841
International	(576)	(3,079)	(1,217)	(1,195)
Total Retailing	49,771	37,993	141,641	126,646
Services:				
Ticketing	50,454	42,799	178,254	138,148
Lending	15,202	25,270	34,024	46,622
Real Estate	(8,044)	(5,442)	(21,609)	(23,908)
Teleservices	5,290	4,380	15,848	10,999
Home Services	5,078	2,596	10,791	7,766
Total Services	67,980	69,603	217,308	179,627
Media & Advertising	(2,121)	(855)	(19,885)	2
Membership & Subscriptions:				
Vacations	22,837	20,245	75,519	66,565
Personals	18,996	15,769	37,639	29,691
Discounts	(5,220)	(8,641)	(38,128)	(36,576)
Total Membership & Subscriptions	36,613	27,373	75,030	59,680
Emerging Businesses	(7,233)	(4,602)	(20,126)	(13,370)
Corporate and other	(35,464)	(110,263)	(129,699)	(212,734)
Total	$ 109,546	$ 19,249	$ 264,269	$ 139,851

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
	(In thousands)			
Operating Income Before Amortization (b):				
Retailing:				
U.S.	$ 57,349	$ 56,702	$ 176,819	$ 172,205
International	(572)	(2,752)	(535)	(215)
Total Retailing	56,777	53,950	176,284	171,990
Services:				
Ticketing	57,026	49,886	198,759	159,586
Lending	18,807	30,578	46,474	66,749
Real Estate	(6,259)	(2,396)	(15,908)	(13,833)
Teleservices	5,290	4,380	15,848	10,999
Home Services	6,006	3,501	13,608	9,144
Total Services	80,870	85,949	258,781	232,645
Media & Advertising	15,878	9,286	38,207	10,249
Membership & Subscriptions:				
Vacations	29,142	26,550	94,434	85,480
Personals	19,252	16,645	42,499	32,495
Discounts	(3,932)	(7,085)	(34,264)	(31,749)
Total Membership & Subscriptions	44,462	36,110	102,669	86,226
Emerging Businesses	(7,053)	(4,591)	(19,590)	(12,995)
Corporate and other	(19,113)	(26,503)	(61,430)	(100,553)
Total	$ 171,821	$ 154,201	$ 494,921	$ 387,562

(a) Intersegment eliminations relate to services provided between IAC segments and primarily include call center services provided by the Teleservices segment to other IAC segments, including certain of those businesses currently presented in discontinued operations. Revenues generated between IAC continuing operating segments were $5.2 million and $5.3 million for the three months ended September 30, 2006 and 2005, respectively, and $14.8 million and $10.9 million for the nine months ended September 30, 2006 and 2005, respectively. Revenues generated by IAC continuing operating segments from discontinued operating segments were none and $3.0 million for the three months ended September 30, 2006 and 2005, respectively, and less than $0.1 million and $17.7 million for the nine months ended September 30, 2006, and 2005, respectively. These amounts are eliminated in consolidation.

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

The following table reconciles Operating Income Before Amortization to operating income and net earnings available to common shareholders.

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Operating Income Before Amortization	$ 171,821	$ 154,201	$ 494,921	$ 387,562
Non-cash compensation expense	(18,092)	(84,775)	(70,772)	(113,778)
Amortization of non-cash marketing	(14,629)		(32,625)	
Amortization of intangibles	(29,554)	(50,177)	(127,255)	(133,933)
Operating income	109,546	19,249	264,269	139,851
Interest income	16,578	29,365	55,032	121,377
Interest expense	(14,731)	(20,439)	(45,738)	(58,106)
Gain on sale of VUE interests				523,487
Equity in income of unconsolidated affiliates	8,322	6,225	25,594	39,580
Other income (a)	3,541	8,034	7,479	16,126
Income tax provision	(54,180)	(6,802)	(131,356)	(309,882)
Minority interest in income of consolidated subsidiaries	30	(526)	701	(1,951)
Gain on sale of EUVÍA, net of tax				79,648
Income (loss) from discontinued operations, net of tax	5,839	34,383	(45)	212,953
Preferred dividends		(1,412)		(7,938)
Net earnings available to common shareholders	$ 74,945	$ 68,077	$ 175,936	$ 755,145

(a) Other income for the nine months ended September 30, 2005 includes a $16.7 million gain on the sale of the Company's minority interest share in the Italian home shopping operations, partially offset by $15.0 million of realized losses on marketable securities.

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Revenue				
United States	$ 1,392,432	$ 1,256,664	$ 4,126,385	$ 3,384,526
All other countries	210,539	187,770	636,259	564,117
	$ 1,602,971	$ 1,444,434	$ 4,762,644	$ 3,948,643

	September 30, 2006	December 31, 2005
	(In thousands)	
Long-lived assets		
United States	$ 593,395	$ 560,201
All other countries	39,582	36,057
	$ 632,977	$ 596,258

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NOTE 7 RECONCILIATION OF NON-GAAP MEASURE

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

	For the three months ended September 30, 2006:				
	Operating Income Before Amortization	Non-cash compensation expense (A)	Amortization of non-cash marketing	Amortization of intangibles	Operating income (loss)
Retailing:					
U.S.	$ 57.3	$ (1.3)	$	$ (5.7)	$ 50.3
International	(0.6)				(0.6)
Total Retailing	56.8	(1.3)		(5.7)	49.8
Services:					
Ticketing	57.0			(6.6)	50.5
Lending	18.8	(0.1)		(3.5)	15.2
Real Estate	(6.3)	(0.1)		(1.7)	(8.0)
Teleservices	5.3				5.3
Home Services	6.0	(0.2)		(0.8)	5.1
Total Services	80.9	(0.4)		(12.5)	68.0
Media & Advertising	15.9		(14.6)	(3.4)	(2.1)
Membership & Subscriptions:					
Vacations	29.1			(6.3)	22.8
Personals	19.3			(0.3)	19.0
Discounts	(3.9)			(1.3)	(5.2)
Total Membership & Subscriptions	44.5			(7.8)	36.6
Emerging Businesses	(7.1)			(0.1)	(7.2)
Corporate and other	(19.1)	(16.4)			(35.5)
Total	$ 171.8	$ (18.1)	$ (14.6)	$ (29.6)	109.5
Other income, net					13.7
Earnings from continuing operations before income taxes and minority interest					123.3
Income tax provision					(54.2)
Minority interest in income of consolidated subsidiaries					
Earnings from continuing operations					69.1
Gain on sale of EUVÍA, net of tax					
Income from discontinued operations, net of tax					5.8
Earnings before preferred dividends					74.9
Preferred dividends					
Net earnings available to common shareholders					$ 74.9

(A) Non-cash compensation expense includes $1.3 million, $1.4 million and $15.4 million which are included in cost of sales, selling and marketing expense and general and administrative expense, respectively, in the accompanying consolidated statement of operations.

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For the three months ended September 30, 2005:

	Operating Income Before Amortization	Non-cash compensation expense (B)	Amortization of non-cash marketing	Amortization of intangibles	Operating income (loss)
Retailing:					
U.S.	$ 56.7	$ (0.3)	$	$ (15.4)	$ 41.1
International	(2.8)			(0.3)	(3.1)
Total Retailing	54.0	(0.3)		(15.7)	38.0
Services:					
Ticketing	49.9			(7.1)	42.8
Lending	30.6	(0.5)		(4.8)	25.3
Real Estate	(2.4)	(0.2)		(2.8)	(5.4)
Teleservices	4.4				4.4
Home Services	3.5	(0.1)		(0.8)	2.6
Total Services	86.0	(0.9)		(15.5)	69.6
Media & Advertising	9.3			(10.1)	(0.9)
Membership & Subscriptions:					
Vacations	26.6			(6.3)	20.2
Personals	16.6			(0.9)	15.8
Discounts	(7.1)			(1.6)	(8.6)
Total Membership & Subscriptions	36.1			(8.7)	27.4
Emerging Businesses	(4.6)	0.1		(0.1)	(4.6)
Corporate and other	(26.5)	(83.8)			(110.3)
Total	$ 154.2	$ (84.8)	$	$ (50.2)	19.2
Other income, net					23.2
Earnings from continuing operations before income taxes and minority interest					42.4
Income tax provision					(6.8)
Minority interest in income of consolidated subsidiaries					(0.5)
Earnings from continuing operations					35.1
Gain on sale EUVÍA, net of tax					
Income from discontinued operations, net of tax					34.4
Earnings before preferred dividends					69.5
Preferred dividends					(1.4)
Net earnings available to common shareholders					$ 68.1

(B) Non-cash compensation expense includes $3.2 million, $1.5 million and $80.1 million which are included in cost of sales, selling and marketing expense and general and administrative expense, respectively, in the accompanying consolidated statement of operations.

For the nine months ended September 30, 2006:

	Operating Income Before Amortization	Non-cash compensation expense (C)	Amortization of non-cash marketing	Amortization of intangibles	Operating income (loss)
Retailing:					
U.S.	$ 176.8	$ (3.5)	$	$ (30.5)	$ 142.9
International	(0.5)			(0.7)	(1.2)
Total Retailing	176.3	(3.5)		(31.2)	141.6
Services:					
Ticketing	198.8			(20.5)	178.3
Lending	46.5	1.0		(13.5)	34.0
Real Estate	(15.9)	0.5		(6.2)	(21.6)
Teleservices	15.8				15.8
Home Services	13.6	(0.5)		(2.4)	10.8
Total Services	258.8	1.1		(42.6)	217.3
Media & Advertising	38.2		(29.6)	(28.5)	(19.9)
Membership & Subscriptions:					
Vacations	94.4			(18.9)	75.5
Personals	42.5		(3.0)	(1.9)	37.6
Discounts	(34.3)			(3.9)	(38.1)
Total Membership & Subscriptions	102.7		(3.0)	(24.6)	75.0
Emerging Businesses	(19.6)	(0.1)		(0.4)	(20.1)
Corporate and other	(61.4)	(68.3)			(129.7)
Total	$ 494.9	$ (70.8)	$ (32.6)	$ (127.3)	264.3
Other income, net					42.4
Earnings from continuing operations before income taxes and minority interest					306.6
Income tax provision					(131.4)
Minority interest in income of consolidated subsidiaries					0.7
Earnings from continuing operations					176.0
Gain on sale of EUVÍA, net of tax					
Loss from discontinued operations, net of tax					
Earnings before preferred dividends					175.9
Preferred dividends					
Net earnings available to common shareholders					$ 175.9

(C) Non-cash compensation expense includes $5.4 million, $5.9 million, $59.4 million and $0.1 million which are included in cost of sales, selling and marketing expense, general and administrative expense and other operating expense, respectively, in the accompanying consolidated statement of operations.

For the nine months ended September 30, 2005:

	Operating Income Before Amortization	Non-cash compensation expense (D)	Amortization of non-cash marketing	Amortization of intangibles	Operating income (loss)
Retailing:					
U.S.	$ 172.2	$ (0.3)	$	$ (44.1)	$ 127.8
International	(0.2)			(1.0)	(1.2)
Total Retailing	172.0	(0.3)		(45.1)	126.6
Services:					
Ticketing	159.6			(21.4)	138.1
Lending	66.7	(1.4)		(18.7)	46.6
Real Estate	(13.8)	(0.7)		(9.3)	(23.9)
Teleservices	11.0				11.0
Home Services	9.1	0.9		(2.2)	7.8
Total Services	232.6	(1.3)		(51.7)	179.6
Media & Advertising	10.2			(10.2)	
Membership & Subscriptions:					
Vacations	85.5			(18.9)	66.6
Personals	32.5			(2.8)	29.7
Discounts	(31.7)			(4.8)	(36.6)
Total Membership & Subscriptions	86.2			(26.5)	59.7
Emerging Businesses	(13.0)			(0.4)	(13.4)
Corporate and other	(100.6)	(112.2)			(212.7)
Total	$ 387.6	$ (113.8)	$	$ (133.9)	139.9
Other income, net					642.5
Earnings from continuing operations before income taxes and minority interest					782.3
Income tax provision					(309.9)
Minority interest in income of consolidated subsidiaries					(2.0)
Earnings from continuing operations					470.5
Gain on sale EUVÍA, net of tax					79.6
Income from discontinued operations, net of tax					213.0
Earnings before preferred dividends					763.1
Preferred dividends					(7.9)
Net earnings available to common shareholders					$ 755.1

(D) Non-cash compensation expense includes $5.3 million, $3.2 million, $105.2 million and $0.1 million which are included in cost of sales, selling and marketing expense, general and administrative expense and other operating expense, respectively, in the accompanying consolidated statement of operations.

NOTE 8 DISCONTINUED OPERATIONS

During the second quarter of 2006, Quiz TV Limited, previously reported in IAC's Emerging Businesses group, ceased operations and is presented as a discontinued operation in the accompanying consolidated balance sheet and consolidated statements of operations and cash flows for all periods presented.

In June 2005, IAC sold its 48.6% ownership in EUVÍA (previously reported in the International segment of IAC's Retailing sector) for approximately $204.0 million, which resulted in a pre-tax gain of $127.1 million and an after-tax gain of $79.6 million recognized in the second quarter of 2005. The after-tax gain on the sale of EUVÍA was subsequently reduced to $70.2 million in the fourth quarter of 2005. During the second quarter of 2005, TV Travel Shop ceased the sale of third-party travel products through its broadcast programming. On August 9, 2005, IAC completed the Spin-Off. Accordingly, discontinued operations in the accompanying consolidated statements of operations and cash flows include Expedia through August 8, 2005 and EUVÍA through June 2, 2005. TV Travel Shop, Styleclick, ECS and Avaltus are presented as discontinued operations in the accompanying consolidated balance sheet and consolidated statements of operations and cash flows for all periods presented. Income from discontinued operations, net of tax, in 2006 includes a tax benefit on state tax reserves released during the third quarter related to the sale of USA Broadcasting in 2002.

The net revenue and net earnings, net of the effect of any minority interest, for the aforementioned discontinued operations, were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
	(In thousands)			
Net revenue	$ 24	$ 266,452	$ 4,794	$ 1,377,768
(Loss) earnings before income taxes and minority interest	$ (254)	$ 80,732	$ (4,473)	$ 281,332
Income tax benefit (provision)	6,093	(46,982)	4,428	(63,006)
Minority interest in loss (income) of consolidated subsidiaries		633		(5,373)
Net earnings	$ 5,839	$ 34,383	$ (45)	$ 212,953

NOTE 9 EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	(In thousands, except per share data)			
Earnings from continuing operations:				
Numerator:				
Earnings from continuing operations	$ 69,106	$ 35,106	$ 175,981	$ 470,482
Preferred stock dividends (a)		(1,412)		(7,938)
Net earnings from continuing operations available to common shareholders	69,106	33,694	175,981	462,544
Interest expense on Convertible Notes (b)	241		851	412
Net earnings from continuing operations available to common shareholders after assumed conversions	$ 69,347	$ 33,694	$ 176,832	$ 462,956
Denominator:				
Basic shares outstanding	296,091	326,421	309,070	332,426
Dilutive securities including stock options, warrants and restricted stock and share units	13,123	21,367	15,677	28,480
Denominator for diluted earnings per share weighted average shares (c)	309,214	347,788	324,747	360,906
Net earnings available to common shareholders:				
Numerator:				
Earnings before preferred dividends	$ 74,945	$ 69,489	$ 175,936	$ 763,083
Preferred stock dividends (a)		(1,412)		(7,938)
Net earnings available to common shareholders	74,945	68,077	175,936	755,145
Interest expense on Convertible Notes (b)	241		851	412
Net earnings available to common shareholders after assumed conversions	$ 75,186	$ 68,077	$ 176,787	$ 755,557
Denominator:				
Basic shares outstanding	296,091	326,421	309,070	332,426
Dilutive securities including stock options, warrants and restricted stock and share units	13,123	21,367	15,677	28,480
Denominator for diluted earnings per share weighted average shares (c)	309,214	347,788	324,747	360,906

Earnings per share:				
Basic earnings per share from continuing operations	$ 0.23	$ 0.10	$ 0.57	$ 1.39
Discontinued operations, net of tax	0.02	0.11		0.88
Basic earnings per share from net earnings	$ 0.25	$ 0.21	$ 0.57	$ 2.27
Diluted earnings per share from continuing operations	$ 0.22	$ 0.10	$ 0.54	$ 1.30
Discontinued operations, net of tax	0.02	0.10		0.82
Diluted earnings per share from net earnings	$ 0.24	$ 0.20	$ 0.54	$ 2.12

(a) For the nine months ended September 30, 2005, approximately 7.9 million shares related to the assumed conversion of the Company's preferred stock were included in the calculation of diluted earnings per share. Accordingly, under the "if-converted" method, the preferred stock dividends were excluded from the numerator in calculating diluted earnings per share.

(b) For the three months ended September 30, 2006, approximately 1.3 million shares related to the assumed conversion of the Convertible Notes were included in the calculation of diluted earnings per share. For the nine months ended September 30, 2006 and 2005, approximately 1.7 million shares and 1.2 million shares, respectively, related to the assumed conversion of Convertible Notes were included in the calculation of diluted earnings per share. Accordingly, under the "if-converted" method, the interest expense related to the Convertible Notes was excluded from the numerator in calculating diluted earnings per share for each respective period.

(c) Weighted average common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options and warrants, vesting of restricted stock units and conversion of the Convertible Notes. For the three months ended September 30, 2005, approximately 3.5 million shares related to the assumed conversion of the Convertible Notes that could potentially dilute basic earnings per share in the future were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

NOTE 10 EQUITY INVESTMENTS IN UNCONSOLIDATED AFFILIATES

At September 30, 2006 and December 31, 2005, the Company's equity investments in unconsolidated affiliates totaled $77.9 million and $52.3 million, respectively, and is included in "Long-term investments" in the accompanying consolidated balance sheet.

Through June 7, 2005, IAC beneficially owned 5.44% of the partnership common equity of Vivendi Universal Entertainment LLLP ("VUE"), plus certain preferred interests of VUE. This common interest was accounted for using the equity method. On June 7, 2005, IAC sold its common and preferred interests in VUE to NBC Universal for approximately $3.4 billion in aggregate consideration, which resulted in a pre-tax gain of $523.5 million and an after-tax gain of $322.1 million. Prior to the sale, the statement of operations data related to VUE was historically recorded on a one-quarter lag due to the timing of receiving information from the partnership. During the fourth quarter of 2004, VUE recorded a charge related to asset impairments. Due to the one-quarter lag noted above, IAC recorded its share of the charge in the first quarter of 2005. Equity in income of VUE recognized in the nine months ended September 30, 2005 represents IAC's share in VUE's 2004 fourth quarter results as well as IAC's share of VUE's results from January 1, 2005 through June 7, 2005.

Summarized financial information for the Company's equity investment in VUE was as follows (in thousands):

	For the period October 1, 2004 to June 7, 2005
Net sales	$ 5,633,353
Gross profit	1,707,191
Net income	441,855

Summarized aggregated financial information for the Company's remaining equity investments, Jupiter Shop Channel (Japan), TVSN (China) and TM Mexico, is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Net sales	$ 220,673	$ 170,642	$ 645,546	$ 504,668
Gross profit	93,225	70,545	274,514	204,868
Net income	24,040	16,607	71,026	49,046

During the third quarter of 2006, IAC sold its equity investment in BET, which resulted in a pre-tax gain of $4.5 million and an after-tax gain of $2.6 million.

NOTE 11 DERIVATIVE INSTRUMENTS

Derivatives Related to Long-term Debt

IAC's objective in managing its exposure to interest rate risk on its long-term debt is to maintain its mix of floating rate and fixed rate debt within a certain range. IAC's risk management policy enables IAC to manage its exposure to the impact of interest rate changes. As such, from time to time, IAC may enter into interest rate swap transactions designated as fair value hedges with financial institutions to modify the interest characteristics on a portion of its long-term debt. In 2004 and 2003, the Company entered into various interest rate swap agreements related to a portion of its 7.00% Senior Notes due January 15, 2013 (the "2002 Senior Notes"), which effectively changed the Company's interest rate exposure on a portion of the debt from fixed to floating. As of September 30, 2006, of the $750 million total principal amount of the 2002 Senior Notes, the interest rate is fixed on $400 million and the balance of $350 million has been swapped to floating based on the spread over 6-month LIBOR. To further manage risk, the Company unwound swap agreements for nominal gains during 2005 and 2004, which are being amortized over the remaining life of the 2002 Senior Notes. The changes in fair value of the interest rate swaps at September 30, 2006 and 2005 resulted in losses of $11.1 million and $5.3 million, respectively. The fair value of the contracts has been recorded in the accompanying consolidated balance sheet in "Other non-current assets" and/or "Other long-term liabilities" with a corresponding offset to the carrying value of the related debt. The derivative gain or loss in the period of change and the offsetting hedged item loss or gain attributable to the hedged risk are recognized in the consolidated statement of operations.

Derivatives Created in the Spin-Off

As a result of the IAC Search & Media, Inc. (formerly Ask Jeeves, Inc.) acquisition, upon conversion of the Ask Zero Coupon Convertible Subordinated Notes due June 1, 2008 (the "Convertible Notes"), holders would receive shares of IAC common stock or the cash equivalent of such shares, at the Company's option. Following the Spin-Off, IAC became obligated to deliver shares of both IAC common stock and Expedia common stock to the holders upon conversion of the Convertible Notes. IAC and Expedia may elect to deliver the cash equivalent in lieu of such shares upon conversion of the Convertible Notes. This obligation represents a derivative liability in IAC's accompanying consolidated balance sheet because it is not denominated solely in shares of IAC common stock. This derivative liability was valued at $24.1 million at September 30, 2006. Under the separation agreement related to the Spin-Off, Expedia contractually assumed the obligation to deliver shares of Expedia common stock or the cash equivalent of such shares to IAC upon conversion by the holders of the Convertible Notes. This represents a derivative asset in IAC's accompanying consolidated balance sheet valued at $21.7 million at September 30, 2006. Both of these derivatives are maintained at fair value each reporting period with any changes in fair value reflected in the consolidated statement of operations. The net change in the fair value of these derivatives for the three and nine months ended September 30, 2006 resulted in net losses of $2.3 million and $3.1 million, respectively. The net change in the fair value of these derivatives for the three and nine months ended September 30, 2005 resulted in a gain of $8.9 million. These changes in fair value have been recognized in other income (expense) in the accompanying consolidated statements of operations. The derivative asset related to the Convertible Notes is recorded in "Other non-current assets" and the derivative liability related to the Convertible Notes is recorded in "Other long-term liabilities" in the accompanying consolidated balance sheet. At September 30, 2006, the principal amount of the Convertible Notes outstanding was $34.7 million.

Derivatives Related to Loans Held for Sale

The Company is exposed to additional risks in connection with its mortgage banking operations which are conducted under two brand names, LendingTree Loans and Home Loan Center (herein collectively referred to as "LendingTree Loans"). LendingTree Loans is exposed to interest rate risk for loans it originates until those loans are sold in the secondary market ("loans held for sale"). The fair value of loans held for sale is subject to change primarily due to changes in market interest rates. LendingTree Loans hedges the changes in fair value of certain loans held for sale primarily by using mortgage forward delivery contracts. These hedging relationships are designated as fair value hedges. The fair value of loans held for sale is determined using current secondary market prices for loans with similar coupons, maturities and credit quality. For loans held for sale that are hedged with forward delivery contracts, the carrying value of the loans held for sale and the derivative instruments are adjusted for the change in fair value during the time the hedge was deemed to be highly effective. The effective portion of the derivative gain or loss as well as the offsetting hedged item loss or gain attributable to the hedged risk are recognized in the statement of operations as a component of revenue. The net of these adjustments represents the ineffective portion of highly effective hedges which is also recorded as a component of revenue. If it is determined that the hedging relationship is not highly effective, hedge accounting is discontinued. When hedge accounting is discontinued, the affected loans held for sale are no longer adjusted for changes in fair value. However, the changes in fair value of the derivative instruments are recognized in current earnings as a component of revenue. The fair value of the derivative instruments is recorded in "Other current assets" and/or "Other accrued liabilities" in the accompanying consolidated balance sheet. For the three and nine months ended September 30, 2006, the Company recognized a gain of less than $0.1 million and a loss of $0.2 million related to hedge ineffectiveness and losses of $0.8 million and $0.5 million, respectively, related to changes in the fair value of derivative instruments when hedge accounting was discontinued. For the three and nine months ended September 30, 2005, the Company recognized losses of less than $0.1 million and $1.2 million, respectively, related to hedge ineffectiveness and gains of $1.3 million and $0.7 million, respectively, related to changes in the fair value of derivative instruments when hedge accounting was discontinued.

LendingTree Loans enters into commitments with consumers to originate loans at a locked in interest rate (interest rate lock commitments "IRLCs"). IAC reports IRLCs as derivative instruments in accordance with SEC Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," and SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and determines the fair value of IRLCs using current secondary market prices for underlying loans with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability, or fallout factor. Similar to loans held for sale, the fair value of IRLCs is subject to change primarily due to changes in interest rates and fallout factors. Under LendingTree Loans' risk management policy, LendingTree Loans hedges the changes in fair value of IRLCs primarily by entering into forward delivery contracts which can reduce the volatility of earnings. Both the IRLCs and the related hedging instrument do not qualify for hedge accounting and are recorded at fair value with changes in fair value being recorded in current earnings as a component of revenue in the statement of operations. The net change in the fair value of these derivative instruments for the three and nine months ended September 30, 2006 resulted in losses of $1.0 million and less than $0.1 million, respectively, and have been recognized in the accompanying consolidated statements of operations. The net change in the fair value of these derivative instruments for the three and nine months ended September 30, 2005 resulted in gains of $2.8 million and $0.9 million, respectively, and have been recognized in the accompanying consolidated statements of operations. The IRLCs are recorded in "Other current assets" and/or "Other accrued liabilities" in the accompanying consolidated balance sheet. At September 30, 2006, there was $683.1 million of IRLC's notional value outstanding.

Derivatives Related to Foreign Exchange

IAC's objective in managing its foreign exchange risk is to reduce its potential exposure to the changes that exchange rates might have on its earnings, cash flows and financial position. IAC's primary exposure to foreign currency risk relates to investments in foreign subsidiaries that transact business in a functional currency other than the U.S. dollar, primarily the Euro, British Pound Sterling and Canadian Dollar. The Company is also exposed to foreign currency risk related to its assets and liabilities denominated in a currency other than the functional currency. As such, from time to time, IAC may enter into forward contracts or swap transactions designated as cash flow hedges with financial institutions to protect against the volatility of future cash flows caused by changes in currency exchange rates in order to reduce, but not always entirely eliminate, the impact of currency exchange rate movements of these local currencies.

During the second quarter of 2003, one of the Company's foreign subsidiaries entered into a five-year foreign exchange forward contract with a notional amount of $38.6 million, which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary's functional currency. This derivative contract has been designated as a cash flow hedge for accounting purposes and foreign exchange re-measurement gains and losses related to the contract and liability are recognized each period in the statement of operations and are offsetting. In addition, the remaining effective portion of the derivative gain or loss is recorded in other comprehensive income until the liability is extinguished. The change in fair value of this foreign exchange forward contract at September 30, 2006 and 2005 resulted in unrealized losses of $6.7 million and $6.2 million, respectively. There was no ineffectiveness recognized in any period related to this derivative contract as the critical terms of the derivative and hedged liability are identical.

NOTE 12 GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

On July 19, 2005, IAC completed the acquisition of IAC Search & Media, Inc. (formerly Ask Jeeves, Inc.). As part of the transaction, IAC irrevocably and unconditionally guaranteed the Convertible Notes. IAC Search & Media, Inc. is wholly owned by IAC.

The following tables present condensed consolidating financial information as of September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 for: the guarantor, IAC, on a stand-alone basis; IAC Search & Media, Inc. (since its acquisition on July 19, 2005), on a stand-alone basis; the combined non-guarantor subsidiaries of IAC; and IAC on a consolidated basis.

As of and for the three and nine months ended September 30, 2006:

	IAC	IAC Search & Media, Inc.	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
			(In thousands)		
Balance sheet as of September 30, 2006:					
Current assets	$ 1,137,116	$ 136,839	$ 2,189,780	$	$ 3,463,735
Property, plant and equipment, net		44,579	565,820		610,399
Goodwill and intangible assets, net		1,845,429	6,928,595		8,774,024
Investment in subsidiaries	12,692,424	1,204,757	11,879,870	(25,777,051)	
Other non-current assets	149,664	32,511	140,263		322,438
Total assets	$ 13,979,204	$ 3,264,115	$ 21,704,328	$ (25,777,051)	$ 13,170,596
Current liabilities	$ 11,961	$ 51,864	$ 2,078,228	$	$ 2,142,053
Long-term debt, net of current maturities	738,914	31,850	100,810		871,574
Other long-term liabilities and minority interest	710,135	158,003	553,540		1,421,678
Intercompany liabilities	3,782,903	(82,989)	(3,699,914)		
Interdivisional equity		3,108,517	21,040,195	(24,148,712)	
Shareholders' equity (deficit)	8,735,291	(3,130)	1,631,469	(1,628,339)	8,735,291
Total liabilities and shareholders' equity (deficit)	$ 13,979,204	$ 3,264,115	$ 21,704,328	$ (25,777,051)	$ 13,170,596

Statement of operations for the three months ended September 30, 2006:					
Revenue	$	$ 116,582	$ 1,486,389	$	$ 1,602,971
Operating expenses		(120,462)	(1,372,963)		(1,493,425)
Interest (expense) income, net	(117,719)	1,315	118,251		1,847
Other income (expense), net	186,824	(2,640)	14,242	(186,563)	11,863
Income tax benefit (provision)		7,564	(61,744)		(54,180)
Minority interest in loss of consolidated subsidiaries	1		29		30
Earnings from continuing operations	69,106	2,359	184,204	(186,563)	69,106
Discontinued operations, net of tax	5,839		5,839	(5,839)	5,839
Earnings before preferred dividends	74,945	2,359	190,043	(192,402)	74,945
Preferred dividends					
Net earnings available to common shareholders	$ 74,945	$ 2,359	$ 190,043	$ (192,402)	$ 74,945

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Statement of operations for the nine months ended September 30, 2006:					
Revenue	$	$ 333,999	$ 4,428,645	$	$ 4,762,644
Operating expenses		(358,428)	(4,139,947)		(4,498,375)
Interest (expense) income, net	(334,731)	2,657	341,368		9,294
Other income, net	510,004	8,495	34,454	(519,880)	33,073
Income tax benefit (provision)		10,071	(141,427)		(131,356)
Minority interest in loss (income), of consolidated subsidiaries	708		(7)		701
Earnings (loss) from continuing operations	175,981	(3,206)	523,086	(519,880)	175,981
Discontinued operations, net of tax	(45)		(45)	45	(45)
Earnings (loss) before preferred dividends	175,936	(3,206)	523,041	(519,835)	175,936
Preferred dividends					
Net earnings (loss) available to common shareholders	$ 175,936	$ (3,206)	$ 523,041	$ (519,835)	$ 175,936

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Statement of cash flows for the nine months ended September 30, 2006:					
Cash flows (used in) provided by operating activities attributable to continuing operations	$ (244,053)	$ 67,516	$ 692,508	$	$ 515,971
Cash flows (used in) provided by investing activities attributable to continuing operations	(104,447)	(14,156)	556,672		438,069
Cash flows provided by (used in) financing activities attributable to continuing operations	348,500	(52,609)	(1,187,840)		(891,949)
Net cash used in discontinued operations			(3,641)		(3,641)
Effect of exchange rate changes on cash and cash equivalents		2,083	21,244		23,327
Cash and cash equivalents at beginning of period		72,977	914,103		987,080
Cash and cash equivalents at end of period	$	$ 75,811	$ 993,046	$	$ 1,068,857

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For the three and nine months ended September 30, 2005:

	IAC	IAC Search & Media, Inc.	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
			(In thousands)		
Statement of operations for the three months ended September 30, 2005:					
Revenue	$	$ 70,849	$ 1,373,585	$	$ 1,444,434
Operating expenses		(73,778)	(1,351,407)		(1,425,185)
Interest (expense) income, net	(64,087)	(282)	73,295		8,926
Other income, net	98,308	20,240	4,518	(108,807)	14,259
Income tax provision		(479)	(6,323)		(6,802)
Minority interest in loss (income) of consolidated subsidiaries	885		(1,411)		(526)
Earnings from continuing operations	35,106	16,550	92,257	(108,807)	35,106
Discontinued operations, net of tax	34,383		34,212	(34,212)	34,383
Earnings before preferred dividends	69,489	16,550	126,469	(143,019)	69,489
Preferred dividends	(1,412)				(1,412)
Net earnings available to common shareholders	$ 68,077	$ 16,550	$ 126,469	$ (143,019)	$ 68,077
Statement of operations for the nine months ended September 30, 2005:					
Revenue	$	$ 70,849	$ 3,877,794	$	$ 3,948,643
Operating expenses		(73,778)	(3,735,014)		(3,808,792)
Interest (expense) income, net	(226,519)	(282)	290,072		63,271
Other income, net	697,160	20,240	513,563	(651,770)	579,193
Income tax provision		(479)	(309,403)		(309,882)
Minority interest in income of consolidated subsidiaries	(159)		(1,792)		(1,951)
Earnings from continuing operations	470,482	16,550	635,220	(651,770)	470,482
Discontinued operations, net of tax	292,601		292,430	(292,430)	292,601
Earnings before preferred dividends	763,083	16,550	927,650	(944,200)	763,083
Preferred dividends	(7,938)				(7,938)
Net earnings available to common shareholders	$ 755,145	$ 16,550	$ 927,650	$ (944,200)	$ 755,145

Statement of cash flows for the nine months ended September 30, 2005:					
Cash flows (used in) provided by operating activities attributable to continuing operations	$ (829,863)	$ 18,207	$ 356,249	$	$ (455,407)
Cash flows (used in) provided by investing activities attributable to continuing operations	(36,915)	101,983	1,525,918		1,590,986
Cash flows provided by (used in) financing activities attributable to continuing operations	866,778	(42,804)	(2,723,466)		(1,899,492)
Net cash provided by discontinued operations			695,666		695,666
Effect of exchange rate changes on cash and cash equivalents		(271)	(21,782)		(22,053)
Cash and cash equivalents at beginning of period			999,698		999,698
Cash and cash equivalents at end of period	$	$ 77,115	$ 832,283	$	$ 909,398

NOTE 13 SUPPLEMENTAL CASH FLOW INFORMATION

Continuing Operations

Supplemental disclosure of non-cash transactions for the nine months ended September 30, 2006

For the nine months ended September 30, 2006, the Company recognized non-cash compensation expense of $70.8 million.

For the nine months ended September 30, 2006, the Company recognized amortization of non-cash marketing of $32.6 million. Amortization of non-cash marketing consists of non-cash advertising secured from Universal Television as part of the transaction pursuant to which VUE was created, and the subsequent transaction by which IAC sold its partnership interests in VUE (collectively referred to as the "NBC Universal Advertising"). The NBC Universal Advertising is available for television advertising on various NBC Universal network and cable channels without any cash cost.

For the nine months ended September 30, 2006, the Company recognized $25.6 million from equity income of unconsolidated affiliates.

For the nine months ended September 30, 2006, the Company recognized non-cash revenues of $4.3 million as a result of deferred revenue recorded in connection with various acquisitions.

During the nine months ended September 30, 2006, $79.3 million principal amount of Convertible Notes was converted by the holders. Upon conversion, 3.0 million shares of IAC common stock and 3.0 million shares of Expedia common stock were issued to the holders.

Due to a true-up of federal income taxes for the 2005 period prior to the Spin-Off and as provided for in the tax sharing agreement entered into with Expedia at the time of the Spin-Off, the Company recorded a $15.5 million reduction to the amount distributed to Expedia shareholders in September 2006 due to a reduced tax liability. The amount is included in the consolidated statement of shareholders' equity as an increase to additional paid-in capital.

Supplemental disclosure of non-cash transactions for the nine months ended September 30, 2005

For the nine months ended September 30, 2005, the Company recognized non-cash compensation expense of $113.8 million.

On July 19, 2005, IAC completed the acquisition of IAC Search & Media, Inc. (formerly Ask Jeeves, Inc.). IAC issued an aggregate of 37.9 million shares of IAC common stock valued at $1.7 billion.

Prior to the commencement of trading on August 9, 2005, IAC completed the Spin-Off. The net assets comprising the Expedia businesses, which were spun-off by IAC, amounted to $5.8 billion and was included in the consolidated statement of shareholders' equity as a reduction to additional paid-in capital and retained earnings.

In connection with IAC's sale of its common and preferred interests in VUE, IAC received 28.3 million IAC common shares into treasury, valued at $1.4 billion, as part of the consideration.

For the nine months ended September 30, 2005, the Company recognized $18.3 million of paid-in-kind interest income on the VUE Series A Preferred interest received in connection with the formation of VUE.

For the nine months ended September 30, 2005, the Company recognized $39.6 million from equity income of unconsolidated affiliates, including income of $22.0 million from its common interest in VUE.

For the nine months ended September 30, 2005, the Company recognized non-cash revenues of $16.9 million as a result of deferred revenue recorded in connection with various acquisitions.

Discontinued Operations

Supplemental disclosure of non-cash transactions for the nine months ended September 30, 2005

For the period ended August 8, 2005, Expedia recognized amortization of non-cash marketing of $5.8 million and non-cash compensation expense of $58.0 million.

For the period ended August 8, 2005, Expedia recognized $0.6 million from equity income of unconsolidated affiliates.

NOTE 14 INCOME TAXES

The Company calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28 and FASB Interpretation No. 18. At the end of each interim period, the Company makes its best estimate of the annual expected effective tax rate and applies that rate to its ordinary year-to-date earnings or loss. The tax or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates, tax status, or judgment on the realizability of a beginning-of-the-year deferred tax asset in future years is recognized in the interim period in which the change occurs.

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, projections of the proportion of income (or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or our tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the current quarter. Included in the income tax provision for the three months ended September 30, 2006 is a provision of $2.3 million due to a change in the estimated annual effective tax rate.

For the three and nine months ended September 30, 2006, the Company recorded tax provisions for continuing operations of $54.2 million and $131.4 million, respectively, which represent effective tax rates of 44% and 43%, respectively. The tax rate for the three months ended September 30, 2006 is higher than the federal statutory rate of 35% due principally to state and foreign taxes and interest on tax contingencies, partially offset by net adjustments related to the reconciliation of provision accruals to tax returns. The tax rate for the nine months ended September 30, 2006 is higher than the federal statutory rate of 35% due principally to state taxes and interest on tax contingencies.

For the three and nine months ended September 30, 2005, the Company recorded tax provisions for continuing operations of $6.8 million and $309.9 million, respectively, which represent effective tax rates of 16% and 40%, respectively. The tax rate for the three months ended September 30, 2005 is lower than the federal statutory rate of 35% due principally to the recognition of a capital loss, a non-taxable gain associated with changes in the fair value of derivatives that were created in the Spin-Off, interest received on IRS refunds and net adjustments related to the reconciliation of provision accruals to tax returns. These favorable items were partially offset by state taxes and non-deductible non-cash compensation expense. The tax rate for the nine months ended September 30, 2005 is higher than the federal statutory rate of 35% due principally to state taxes, non-deductible transaction expenses related to the Spin-Off and non-deductible non-cash compensation expense.

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. Included in discontinued operations for the three months ended September 30, 2006 is a tax benefit of $5.0 million for changes in tax reserves due to the expiration of certain statutes of limitations.

NOTE 15 SUBSEQUENT EVENTS

During October 2006, $14.5 million principal amount of Convertible Notes was converted by the holders. Upon conversion, 0.5 million shares of IAC common stock and 0.5 million shares of Expedia common stock were issued to the holders. After giving effect to the conversion, the remaining outstanding principal amount of the Convertible Notes is $20.2 million.

On November 3, 2006, the Company announced that it had signed a definitive agreement to sell its Teleservices subsidiary, PRC, for approximately $287 million. The sale is subject to regulatory approval and is expected to close during the fourth quarter of 2006. PRC will be treated as a discontinued operation with effect from the fourth quarter of 2006, and all relevant prior periods will be reclassified to conform to this presentation. The sale is expected to generate an after-tax gain of approximately $14.4 million. The assets and liabilities of PRC included in the accompanying consolidated balance sheet consist of the following (in thousands):

	September 30, 2006	December 31, 2005
Current assets	$ 77,304	$ 70,041
Goodwill	$ 129,346	$ 129,346
Other non-current assets	45,653	52,777
Total non-current assets	$ 174,999	$ 182,123
Current liabilities	$ 48,175	$ 47,042
Other long-term liabilities	$ 2,883	$ 80

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

GENERAL

Management Overview

IAC/InterActiveCorp operates leading and diversified businesses in sectors being transformed by the internet, online and offline...our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. IAC operates a diversified portfolio of specialized and global brands in the following sectors:

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

IAC enables 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.

Prior to the commencement of trading 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 and investments as "Expedia." Immediately prior to the Spin-Off, IAC effected a one-for-two reverse stock split.

In June 2005, the Company sold its 48.6% ownership in EUVÍA. Additionally, TV Travel Shop ceased operations during the second quarter of 2005 and Quiz TV Limited, which was previously reported in our Emerging Businesses group, ceased operations during the second quarter of 2006.

Accordingly, discontinued operations in the accompanying consolidated statements of operations and cash flows include Expedia through August 8, 2005 and EUVÍA through June 2, 2005. TV Travel Shop and Quiz TV Limited are presented as discontinued operations in the accompanying consolidated balance sheet and consolidated statements of operations and cash flows for all periods presented. Further, all IAC common stock share information and related per share prices were adjusted to reflect IAC's one-for-two reverse stock split.

On November 3, 2006, the Company announced that it had signed a definitive agreement to sell its Teleservices subsidiary, PRC, for approximately $287 million. The sale is expected to generate an after-tax gain of approximately $14.4 million.

For a more detailed discussion of the Company's operating businesses, see the Company's annual report on Form 10-K for the year ended December 31, 2005.

Results of operations for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005

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

Amortization (as defined in IAC's Principles of Financial Reporting) for the three and nine months ended September 30, 2006 and 2005 (Dollars in millions, rounding differences may occur):

	Three months ended September 30,				Nine months ended September 30,			
	2006	**Percentage of total**	**2005**	**Percentage of total**	**2006**	**Percentage of total**	**2005**	**Percentage of total**
Revenue:								
Retailing	$ 768.7	48%	$ 749.5	52%	$ 2,312.7	49%	$ 2,110.0	53%
Services	511.9	32%	452.9	31%	1,527.6	32%	1,278.5	32%
Media & Advertising	135.5	8%	83.5	6%	384.4	8%	104.0	3%
Membership & Subscriptions	185.1	12%	162.8	11%	534.7	11%	477.9	12%
Emerging Businesses	6.9	0%	4.1	0%	18.0	0%	6.9	0%
Intersegment eliminations	(5.2)	0%	(8.3)	(1)%	(14.8)	0%	(28.6)	(1)%
Total	$ 1,603.0	100%	$ 1,444.4	100%	$ 4,762.6	100%	$ 3,948.6	100%

	Three months ended September 30,				Nine months ended September 30,			
	2006	**Percentage of total**	**2005**	**Percentage of total**	**2006**	**Percentage of total**	**2005**	**Percentage of total**
Operating Income (Loss):								
Retailing	$ 49.8	45%	$ 38.0	197%	$ 141.6	54%	$ 126.6	91%
Services	68.0	62%	69.6	362%	217.3	82%	179.6	128%
Media & Advertising	(2.1)	(2)%	(0.9)	(4)%	(19.9)	(8)%		0%
Membership & Subscriptions	36.6	33%	27.4	142%	75.0	28%	59.7	43%
Emerging Businesses	(7.2)	(7)%	(4.6)	(24)%	(20.1)	(8)%	(13.4)	(10)%
Corporate and other	(35.5)	(32)%	(110.3)	(573)%	(129.7)	(49)%	(212.7)	(152)%
Total	$ 109.5	100%	$ 19.2	100%	$ 264.3	100%	$ 139.9	100%

	Three months ended September 30,				Nine months ended September 30,			
	2006	**Percentage of total**	**2005**	**Percentage of total**	**2006**	**Percentage of total**	**2005**	**Percentage of total**
Operating Income Before Amortization:								
Retailing	$ 56.8	33%	$ 54.0	35%	$ 176.3	36%	$ 172.0	44%
Services	80.9	47%	86.0	56%	258.8	52%	232.6	60%
Media & Advertising	15.9	9%	9.3	6%	38.2	8%	10.2	3%
Membership & Subscriptions	44.5	26%	36.1	23%	102.7	21%	86.2	22%
Emerging Businesses	(7.1)	(4)%	(4.6)	(3)%	(19.6)	(4)%	(13.0)	(3)%
Corporate and other	(19.1)	(11)%	(26.5)	(17)%	(61.4)	(12)%	(100.6)	(26)%
Total	$ 171.8	100%	$ 154.2	100%	$ 494.9	100%	$ 387.6	100%

IAC Consolidated Results

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Revenue increased $158.5 million, or 11%, as a result of revenue increases of $59.1 million, or 13%, from the Services sector, $52.0 million, or 62%, from the Media & Advertising sector, $22.3 million, or 14%, from the Membership & Subscriptions sector and $19.2 million, or 3%, from the Retailing sector. The growth in the Services sector was driven primarily by a strong domestic concert calendar and continued international strength at our Ticketing segment. Partially offsetting the growth in Ticketing was lower revenue from the Lending segment. The revenue growth from the Media & Advertising sector was driven primarily by a full quarter of results from IAC Search & Media.

The contribution from the Membership & Subscriptions sector was led by Personals and Vacations. The increase in the Retailing sector was due to the contribution from Shoebuy, which was acquired on

February 3, 2006, and growth at catalogs. Retailing revenue also reflects flat revenue from HSN. Additional revenue information is provided below by sector and segment.

Gross profit increased $91.1 million, or 14%, primarily reflecting the growth at IAC Search & Media in the Media & Advertising sector. Gross margins increased to 47% in 2006 from 46% in 2005 reflecting higher margins in the Membership & Subscriptions sector, primarily from Personals, as well as higher margins in the Retailing sector. Ticketing gross margins decreased slightly due to an increase in domestic ticket royalties as a percent of revenue.

Selling and marketing expense increased $33.8 million, or 12%. As a percentage of revenue, selling and marketing expense remained constant at 19%. The increase in selling and marketing expense is primarily due to the increased marketing expense at IAC Search & Media relating primarily to its marketing campaign and, to a lesser extent, an increase in marketing expense at Personals relating primarily to its international marketing campaign in 2006. Also contributing to the increase in selling and marketing expense was the Retailing sector, which was impacted by increased on-air distribution and catalog circulation costs at Retailing U.S. The Lending segment also experienced increased marketing expense to drive lead volume in more difficult mortgage market conditions.

General and administrative expense decreased $37.2 million, or 15%, due primarily to the absence in 2006 of a $67.0 million charge related to the modification of vested stock options and the expenses incurred in connection with the Spin-Off. These decreases were, in part, offset by higher general and administrative expenses at several operating segments, including IAC Search & Media and Personals due to increased headcount resulting from growth in these businesses, as well as the inclusion of the results of Shoebuy in the 2006 results. IAC's general and administrative expense includes non-cash compensation of $15.4 million, which reflects a decrease of $64.7 million from the prior period. 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 prior periods. There was no impact to the amount of stock-based compensation recorded in the consolidated statement of operations for the three months ended September 30, 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 non-cash compensation expense is reflected in general and administrative expense. As of September 30, 2006, there was approximately $257.3 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 3.2 years.

Other operating expense increased $4.5 million, or 14%, due primarily to increased expenses at IAC Search & Media in 2006 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.

Depreciation increased $5.6 million, or 15%, due primarily to capital expenditures made during 2005 and 2006, as well as the inclusion of a full quarter of results from IAC Search & Media in 2006, partially offset by certain fixed assets becoming fully depreciated during the period.

Operating Income Before Amortization increased $17.6 million, or 11%, growing at the same rate as revenue due primarily to the improved operating results of the Membership & Subscriptions, Media & Advertising and Retailing sectors, partially offset by a decline at the Services sector. While the Services sector continued to benefit from strength in Ticketing, it was negatively impacted by market conditions in Lending. Operating Income Before Amortization was also favorably impacted by a decrease in Corporate expenses due primarily to the inclusion of Spin-Off transaction expenses and intercompany eliminations totaling $5.2 million in the prior year period.

Operating income increased $90.3 million, or 469%, reflecting the increase in Operating Income Before Amortization noted above, a decrease in total non-cash compensation expense of $66.7 million, or 79%, and a decrease in intangible amortization expense of $20.6 million, or 41%, partially offset by an increase in the amortization of non-cash marketing of $14.6 million. The amortization of non-cash marketing referred to in this report 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 expense at the Retailing, Media & Advertising and Services sectors due to certain intangible assets becoming fully amortized.

Interest income decreased $12.8 million, or 44%, due to lower cash and marketable securities balances in 2006. Interest expense decreased $5.7 million, or 28%, primarily as a result of the prior year inclusion of interest expense on the Company's $6^3/_4$% Senior Notes which matured 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 ("Liberty Bonds").

Equity in income of unconsolidated affiliates increased $2.1 million, or 34%, due primarily to the equity income of unconsolidated affiliates from Retailing International's investment in Jupiter Shop Channel.

Other income decreased by $4.5 million due primarily to a change of $12.1 million in the amount recognized related to the derivatives (see Note 11 to the consolidated financial statements) that were created in the Spin-Off. The 2006 amount was a net loss of $2.7 million, and the 2005 amount was a net gain of $9.4 million. These derivatives are marked to market each reporting period. The increase in expense was partially offset by a realized gain on the sale of an equity investment and an increase in foreign exchange gains.

In 2006, the Company recorded a tax provision for continuing operations of $54.2 million which represents an effective tax rate of 44%. The 2006 tax rate is higher than the federal statutory rate of 35% due principally to state and foreign taxes and interest on tax contingencies, partially offset by net adjustments related to the reconciliation of provision accruals to tax returns. In 2005, the Company recorded a tax provision for continuing operations of $6.8 million which represents an effective tax rate of 16%. The 2005 tax rate is lower than the federal statutory rate of 35% due principally to the recognition of a capital loss, a non-taxable gain associated with changes in the fair value of the derivatives created in the Spin-Off, interest received on IRS refunds and net adjustments related to the reconciliation of provision accruals to tax returns, partially offset by state taxes and non-deductible non-cash compensation expense.

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 in the accompanying consolidated statements of operations and cash flows include Expedia through August 8, 2005 and EUVÍA through June 2, 2005. TV Travel Shop, Quiz TV Limited, Styleclick, ECS and Avaltus are presented as discontinued operations in the accompanying consolidated balance sheet and consolidated statements of operations and cash flows for all periods presented. Income from these discontinued operations in the third quarter of 2006 and 2005 was $5.8 million and $34.4 million, respectively, net of tax. The 2006 amount is principally due to a tax benefit on state tax reserves released during the quarter related to the sale of USA Broadcasting in 2002 and the 2005 amount is principally due to the income of Expedia. Expedia's results for the third quarter of 2005 include a $35.3 million, or $22.0 million after-tax, favorable adjustment to non-cash compensation expense related 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.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Revenue increased $814.0 million, or 21%, primarily as a result of revenue increases of $280.4 million, or 270%, from the Media & Advertising sector, $249.2 million, or 19%, from the Services sector, and $202.7 million, or 10%, from the Retailing sector. The revenue growth from the Media & Advertising sector was driven primarily by the acquisition of IAC Search & Media on July 19, 2005. The growth in the Services sector was driven by higher domestic concert and sporting event ticket sales and continued international strength at our Ticketing segment as well as growth at the Lending segment. The Teleservices segment also contributed to the increase in the Services sector as a result of increases in existing and new business both domestically and internationally. 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 offsetting the revenue growth in the Retailing sector was lower sales at both Retailing International and HSN.

Gross profit increased $471.7 million, or 27%, primarily reflecting the IAC Search & Media and Cornerstone Brands acquisitions. Gross margins increased to 47% in 2006 from 45% in 2005 which also reflects higher margins across all segments in the Membership & Subscriptions sector, partially offset by lower margins at Lending and Teleservices.

Selling and marketing expense increased $257.6 million, or 37%. As a percentage of revenue, selling and marketing expense increased to 20% in 2006 from 18% in 2005. The increase in selling and marketing expense primarily reflects the impact of the inclusion of IAC Search & Media and Cornerstone Brands, and increases in marketing spending at Lending and Personals, as noted above in the three month discussion.

General and administrative expense increased $17.1 million, or 3%, due primarily to the inclusion of the results of IAC Search & Media, Cornerstone Brands and Shoebuy in the 2006 results. General and administrative expense also reflects increased employee costs at several operating segments, mainly at Lending and Personals due in part to increases in headcount resulting from growth in these businesses. Partially offsetting these factors are a decrease of $45.9 million in non-cash compensation expense, the absence 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 related to the modification of vested stock options in connection with the Spin-Off recognized in 2005, partially offset by an increase in non-cash compensation 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 during and subsequent to the third quarter of 2005. The Company has been recognizing expense for all stock-based grants since August 9, 2005, in accordance with SFAS 123, due to the modification resulting from the Spin-Off. There was no impact to the amount of stock-based compensation recorded in the consolidated statement of operations for the nine months ended September 30, 2006 as a result of adopting SFAS 123R. The majority of IAC's stock-based compensation expense is reflected in general and administrative expense.

Other operating expense increased $25.0 million, or 30%, due primarily to the inclusion of the results of IAC Search & Media in the 2006 results as noted above in the three month discussion.

Depreciation increased $21.7 million, or 20%, due primarily to capital expenditures made throughout 2005 and through the first three quarters of 2006 and various acquisitions, partially offset by certain fixed assets becoming fully depreciated during the period.

Operating Income Before Amortization increased $107.4 million, or 28%, due primarily to the improved operating results of Ticketing, Personals and Vacations and the impact of the IAC Search & Media and Cornerstone Brands acquisitions. Operating Income Before Amortization was also favorably impacted by a decrease in Corporate expenses due primarily to the inclusion of Spin-Off transaction expenses and intercompany eliminations totaling $34.3 million in the prior year period. Partially offsetting these increases in Operating Income Before Amortization were declines at Lending.

Operating income increased $124.4 million, or 89%, reflecting the increase in Operating Income Before Amortization noted above, a decrease in non-cash compensation expense of $43.0 million, or 38%, and a decrease in intangible amortization expense of $6.7 million, or 5%, partially offset by an increase in amortization of non-cash marketing of $32.6 million. The amortization of non-cash marketing relates to the use of non-cash advertising noted above in the three month discussion. The decrease in the amortization of intangibles relates primarily to lower amortization expense at the Retailing and Services sectors, partially offset by amortization of intangibles arising from the acquisition of IAC Search & Media.

Interest income decreased $66.3 million, or 55%, due primarily to lower interest income related to the VUE preferred securities of $51.0 million as these interests were sold on June 7, 2005 and lower cash and marketable securities balances in 2006. Interest expense decreased $12.4 million, or 21%, 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 Liberty Bonds and Ask Zero Coupon Convertible Subordinated Notes due June 1, 2008 (the "Convertible Notes").

Equity in the income of unconsolidated affiliates decreased $14.0 million, or 35%. Since the Company sold its interests in VUE in June 2005, no equity income from this investment was recorded for the nine months ended September 30, 2006. The Company recognized $22.0 million of equity income from its investment in VUE for the nine months ended September 30, 2005. This decline was partially offset by an $8.0 million increase in equity income of unconsolidated affiliates primarily from Retailing International's investment in Jupiter Shop Channel. In addition, the Company realized a pre-tax gain in the second quarter of 2005 of $523.5 million from the sale of its interests in VUE.

Other income decreased by $8.6 million in 2006 due primarily to a change of $12.4 million in the amount recognized related to the derivatives that were created in the Spin-Off as noted above in the three month discussion. The 2006 amount was a net loss of $3.0 million, and the 2005 amount was a net gain of $9.4 million. Partially offsetting this amount was a realized gain from the sale of an equity investment. Additionally in 2005, other income was impacted by a $16.7 million gain on the sale of our minority interest share in the Italian home shopping operations, partially offset by $15.0 million in realized losses on the sale of marketable securities.

In 2006, the Company recorded a tax provision for continuing operations of $131.4 million which represents an effective tax rate of 43%. The 2006 tax rate is higher than the federal statutory rate of 35% due principally to state taxes and interest on tax contingencies. In 2005, the Company recorded a tax provision for continuing operations of $309.9 million which represents an effective tax rate of 40%. The 2005 tax rate is higher than the federal statutory rate of 35% due principally to state taxes, non-deductible transaction expenses related to the Spin-Off and non-deductible non-cash compensation expense.

(Loss) income from discontinued operations in 2006 and 2005 was a loss of less than $0.1 million and income of $213.0 million, respectively, net of tax. The 2006 amount is principally due to the losses of Quiz TV Limited and TV Travel Shop, almost entirely offset by a tax benefit on state tax reserves released during the quarter related to the sale of USA Broadcasting in 2002. The 2005 amount is principally due to the income of Expedia through August 8, 2005 and the results of EUVÍA through June 2, 2005, as well as 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 $79.6 million, net of tax, in the second quarter of 2005.

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).

	Three months ended September 30,			Nine months ended September 30,		
	2006	2005	Growth	2006	2005	Growth
Revenue:						
Retailing:						
U.S.	$ 686.2	$ 664.3	3%	$ 2,055.6	$ 1,829.4	12%
International	82.5	85.2	(3)%	257.0	280.7	(8)%
Total Retailing	768.7	749.5	3%	2,312.7	2,110.0	10%
Services:						
Ticketing	265.5	227.5	17%	806.3	696.7	16%
Lending	106.0	109.4	(3)%	327.9	266.8	23%
Real Estate	15.9	16.3	(3)%	42.3	43.0	(2)%
Teleservices	106.1	87.4	21%	302.7	241.6	25%
Home Services	18.5	12.2	51%	48.4	30.5	59%
Total Services	511.9	452.9	13%	1,527.6	1,278.5	19%
Media & Advertising	135.5	83.5	62%	384.4	104.0	270%
Membership & Subscriptions:						
Vacations	72.9	66.1	10%	228.3	208.9	9%
Personals	80.2	66.0	22%	231.8	181.3	28%
Discounts	32.0	30.8	4%	75.5	88.5	(15)%
Intra-sector elimination	(0.1)		NM	(0.9)	(0.8)	(20)%
Total Membership & Subscriptions	185.1	162.8	14%	534.7	477.9	12%
Emerging Businesses	6.9	4.1	70%	18.0	6.9	163%
Intersegment eliminations	(5.2)	(8.3)	37%	(14.8)	(28.6)	48%
Total	$ 1,603.0	$ 1,444.4	11%	$ 4,762.6	$ 3,948.6	21%

	Three months ended September 30,			Nine months ended September 30,		
	2006	2005	Growth	2006	2005	Growth
Operating Income (Loss):						
Retailing:						
U.S.	$ 50.3	$ 41.1	23%	$ 142.9	$ 127.8	12%
International	(0.6)	(3.1)	81%	(1.2)	(1.2)	(2)%
Total Retailing	49.8	38.0	31%	141.6	126.6	12%
Services:						
Ticketing	50.5	42.8	18%	178.3	138.1	29%
Lending	15.2	25.3	(40)%	34.0	46.6	(27)%
Real Estate	(8.0)	(5.4)	(48)%	(21.6)	(23.9)	10%
Teleservices	5.3	4.4	21%	15.8	11.0	44%
Home Services	5.1	2.6	96%	10.8	7.8	39%
Total Services	68.0	69.6	(2)%	217.3	179.6	21%
Media & Advertising	(2.1)	(0.9)	(148)%	(19.9)		NM
Membership & Subscriptions:						
Vacations	22.8	20.2	13%	75.5	66.6	13%
Personals	19.0	15.8	20%	37.6	29.7	27%
Discounts	(5.2)	(8.6)	40%	(38.1)	(36.6)	(4)%
Total Membership & Subscriptions	36.6	27.4	34%	75.0	59.7	26%
Emerging Businesses	(7.2)	(4.6)	(57)%	(20.1)	(13.4)	(51)%
Corporate and other	(35.5)	(110.3)	68%	(129.7)	(212.7)	39%
Total	$ 109.5	$ 19.2	469%	$ 264.3	$ 139.9	89%
Operating Income Before Amortization:						
Retailing:						
U.S.	$ 57.3	$ 56.7	1%	$ 176.8	$ 172.2	3%
International	(0.6)	(2.8)	79%	(0.5)	(0.2)	(149)%
Total Retailing	56.8	54.0	5%	176.3	172.0	2%
Services:						
Ticketing	57.0	49.9	14%	198.8	159.6	25%
Lending	18.8	30.6	(38)%	46.5	66.7	(30)%
Real Estate	(6.3)	(2.4)	(161)%	(15.9)	(13.8)	(15)%
Teleservices	5.3	4.4	21%	15.8	11.0	44%
Home Services	6.0	3.5	71%	13.6	9.1	49%
Total Services	80.9	86.0	(6)%	258.8	232.6	11%
Media & Advertising	15.9	9.3	71%	38.2	10.2	273%
Membership & Subscriptions:						
Vacations	29.1	26.6	10%	94.4	85.5	10%
Personals	19.3	16.6	16%	42.5	32.5	31%
Discounts	(3.9)	(7.1)	45%	(34.3)	(31.7)	(8)%
Total Membership & Subscriptions	44.5	36.1	23%	102.7	86.2	19%
Emerging Businesses	(7.1)	(4.6)	(54)%	(19.6)	(13.0)	(51)%
Corporate and other	(19.1)	(26.5)	28%	(61.4)	(100.6)	39%
Total	$ 171.8	$ 154.2	11%	$ 494.9	$ 387.6	28%
	11%	11%		10%	10%	

	Three months ended September 30,		Nine months ended September 30,	
Operating Income Before Amortization as a percentage of revenue				

Refer to Note 7 of the consolidated financial statements on pages 22 through 25 for reconciliation by sector of Operating Income Before Amortization to Operating Income.

Retailing

Revenue, Operating Income Before Amortization and operating income for the Retailing sector increased for the three and nine months ended September 30, 2006 primarily due to higher catalog revenue and a contribution from Shoebuy. Results for Retailing U.S. include 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. Revenue at HSN was relatively flat in both the three and nine month periods.

U.S.

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Revenue grew 3% to $686.2 million, benefiting from a 4% increase in units shipped, partially offset by a 1% decrease in average price point and a 120 basis point increase in return rates. Overall, Retailing U.S. experienced higher revenue reflecting the acquisition of Shoebuy in February 2006, growth at catalogs and flat revenue from HSN. The change in average price point is, in part, the result of a product mix shift toward jewelry and accessories at HSN. These products typically carry a higher average return rate than the products sold in the year ago period which, coupled with higher return rates within several product categories, led to a higher overall return rate. Catalogs sales growth benefited primarily from increased circulation and slightly higher average price points, partially offset by slightly higher return rates.

Operating Income Before Amortization grew 1% to $57.3 million, growing at a slightly slower rate than revenue due primarily to higher on-air distribution expenses and higher operating costs associated with increased catalog circulation, partially offset by an 80 basis point increase in gross margins. The increase in gross margins is due primarily to a product mix shift at both HSN and catalogs. 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 $4.2 million.

Operating income increased 23% to $50.3 million, reflecting the increase in Operating Income Before Amortization described above, as well as a $9.7 million decrease in the amortization of intangibles resulting from certain intangible assets being fully amortized in 2006, partially offset by a $1.0 million increase in non-cash compensation expense.

While results for the third quarter of 2006 were marginally better than second quarter results, the negative trends at HSN have continued. We have taken, and continue to take, steps to address these issues, but given the nature of the retailing business, we do not anticipate an immediate recovery. While we are looking for modestly improved top line performance in the fourth quarter of 2006 as compared to the prior year period, we also expect to see some margin pressure arising from increasing costs in the distribution area and in certain other operating expenses resulting in a decline in profits. While this may be partially offset by anticipated profit growth in our catalog business, we expect Retailing U.S. profits in the fourth quarter to be down at a high single-digit percentage rate over the prior year.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Revenue grew 12% to $2.1 billion, principally reflecting the inclusion of Cornerstone Brands since its acquisition in April 2005 and subsequent second and third quarter growth of the catalogs business, partially offset by a slight decline at HSN. Revenue in 2006 was also favorably impacted by the acquisition of Shoebuy in February 2006. Revenue benefited from an 8% increase in units shipped, a 4% increase in average price point, partially offset by a 140 basis point increase in return rates. HSN's revenue decreased 1% in 2006 compared with 2005, primarily as a result of a 190 basis point increase in return rates, partially offset by a 1% increase in average price point on flat units shipped. Overall, HSN experienced lower revenues, particularly from TV sales of products in the electronic housewares and beauty categories, despite double-digit online sales growth at HSN.com. 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 grew 3% to $176.8 million, due primarily to the higher revenue noted above and an 80 basis point increase in gross margins, partially offset by an increase in return rates. Although Retailing U.S. benefited from higher gross margins at catalogs, gross margins at HSN declined 40 basis points principally due to higher return rates 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 impact both revenue and gross margins as noted above in the three month discussion. The impact of the increase in overall return rates on gross margins was $15.0 million in 2006.

Operating income increased 12% to $142.9 million primarily due to the increase in Operating Income Before Amortization described above as well as a $13.6 million decrease in the amortization of intangibles resulting from certain intangible assets being fully amortized in 2006, partially offset by a $3.2 million increase in non-cash compensation expense.

International

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Revenue decreased 3% to $82.5 million, or 7% excluding the impact of foreign exchange, due to a decrease in sales across most product categories, an increase in return rates and reduced on-air distribution. The previously reported order processing delays incurred at a new fulfillment center improved and contributed a non-recurring benefit to performance in the quarter.

Operating Income Before Amortization loss and operating loss decreased 79% and 81%, respectively, to losses of $0.6 million, primarily reflecting a decrease in on-air distribution costs.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Revenue decreased 8% to $257.0 million, or 7% excluding the impact of foreign exchange, due primarily to the decrease in sales noted above and an increase in return rates.

Operating Income Before Amortization loss increased 149% to $0.5 million. Results were adversely impacted by order processing delays during the second quarter of 2006, partially offset by lower depreciation and the recovery in the prior year of a fully reserved receivable.

Operating loss increased 2% to $1.2 million primarily due to the increase in Operating Income Before Amortization loss described above, partially offset by a decrease in the amortization of intangibles.

Services

Revenue for the Services sector increased for the three and nine months ended September 30, 2006, driven primarily by growth at Ticketing, due to higher domestic concert sales and continued international expansion. Operating Income Before Amortization and operating income for the three months ended September 30, 2006 were negatively impacted by market conditions in Lending.

Revenue includes $3.8 million and $7.0 million for the three months ended September 30, 2006 and 2005, respectively, and $10.8 million and $25.2 million for the nine months ended September 30, 2006 and 2005, respectively, for services provided to other IAC businesses, including, in the 2005 period, certain businesses included within discontinued operations.

In addition to the operating segment results discussed below, the Services sector includes the results of the Real Estate, Teleservices and Home Services operating segments as noted on pages 48 through 49.

Ticketing

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Revenue grew 17% to $265.5 million driven by increases in both domestic and international revenue as total worldwide tickets sold increased by 7% to 30.9 million with a 10% increase in average revenue per ticket. Domestic revenue increased by 14% due primarily to a strong U.S. concert calendar along with a 9% increase in average domestic revenue per ticket. The increase in average domestic revenue per ticket resulted in part from a product mix shift towards live music events. International revenue increased by 25%, or 19% excluding the impact of foreign exchange, due primarily to increased revenue from the United Kingdom and Canada.

Operating Income Before Amortization increased 14% to $57.0 million, growing at a slower rate than revenue due primarily to higher ticket royalties and higher fixed costs, partially offset by sales distribution efficiencies.

Operating income increased 18% to $50.5 million, primarily due to the increase in Operating Income Before Amortization described above as well as a decrease in the amortization of intangibles.

Forecasting growth in the Ticketing business is a challenge as Ticketmaster's clients generally determine the schedule of when tickets go on sale to the public and what tickets will be available for sale through Ticketmaster. However, given the strength of the year ago period, the Company currently anticipates mid single-digit revenue growth with approximately flat margins in the fourth quarter of 2006 compared to the year ago period. The Company does not believe that the slow down in sequential revenue growth indicates any fundamental change to the growth drivers in this business.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Revenue grew 16% to $806.3 million, reflecting an 8% increase in the number of total worldwide tickets sold with a 6% higher average revenue per ticket. Domestic revenue increased by 14% due primarily to higher domestic concert and sporting event ticket sales, along with a 6% increase in average domestic revenue per ticket. International revenue increased by 22%, or 21% excluding the impact of foreign exchange, due primarily to Ticketmaster's purchase of the remaining interest in its Australian joint venture in April 2005, along with increased revenue from the United Kingdom and Canada. International acquisitions, which include the acquisition of the joint venture interest in Australia in April 2005 and an acquisition in Germany in November 2005, represented 14% of Ticketing's overall revenue growth.

Operating Income Before Amortization and operating income increased 25% and 29%, respectively, to $198.8 million and $178.3 million, respectively, growing at a faster rate than revenue due primarily to operational efficiencies resulting from increased ticket volumes, increased average revenue per ticket and sales distribution efficiencies. These favorable impacts were partially offset by higher domestic ticket royalties. In addition, Operating Income Before Amortization was favorably impacted in 2006 by a $5.8 million reduction in litigation reserves. Operating income also benefited from a decrease in the amortization of intangibles.

Lending

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Revenue decreased 3% to $106.0 million, driven primarily by lower refinance revenue as a result of fewer loans sold into the secondary market and fewer closed units at the exchange. The difficult mortgage market environment continued, leading to a decline in close rates across all home loan products, especially in refinance. Revenue from purchase and home equity loans grew in the double digits, with purchase revenue growing faster, primarily due to a strong growth in the number of purchase loans at LendingTree Loans. The impact of lower close rates was partially offset by higher transmit revenue, due to higher average fees and growth in home loan Qualification Forms. The origination and sale of residential real estate loans occurs under two brand names, LendingTree Loans and Home Loan Center, which brand names are collectively referred to in this report as "LendingTree Loans." The dollar value of loans closed by exchange lenders and directly by LendingTree Loans in 2006 decreased 19% to $8.0 billion. This includes refinance mortgages of $3.9 billion, purchase mortgages of $2.3 billion and home equity loans of $1.5 billion. The dollar value of closed loans in 2005 was $9.9 billion, including refinance mortgages of $5.8 billion, purchase mortgages of $2.4 billion and home equity loans of $1.5 billion.

Operating Income Before Amortization decreased 38% to $18.8 million in 2006, negatively impacted by increased marketing expenses as a percentage of revenue versus the prior period due in part to lower close rates. Margins were also impacted by higher costs associated with the origination of loans sold into the secondary market. As compared to the second quarter of 2006, marketing expense declined, improving sequential profit margins.

Operating income decreased 40% to $15.2 million in 2006 mainly due to the decrease in Operating Income Before Amortization described above, partially offset by a decrease in the amortization of intangibles and a decrease in non-cash compensation expense.

Overall, market trends remain unpredictable in this business. As previously disclosed, we recalibrated our planned marketing and other spending levels based on our first quarter experience, anticipating that these actions would primarily affect the third and fourth quarters of 2006. While revenue was less than expected in the third quarter of 2006, we realized an increase in sequential margins. For the fourth quarter of the year, we expect to see growth in profitability as compared to the prior year period, which reflected an expense accrual associated with an adverse legal judgment.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Revenue grew 23% to $327.9 million, driven primarily by increased sales of loans into the secondary market, higher revenue per loan and increased transmit revenue due to both growth in Qualification Form volume and higher prices on the exchange. Increased revenue from settlement services also impacted revenue growth in the nine month period. The dollar value of loans closed by exchange lenders and directly by LendingTree Loans in 2006 decreased 5% to $24.3 billion. This includes refinance mortgages of $12.7 billion, purchase mortgages of $6.2 billion and home equity loans of $4.6 billion. The dollar value of closed loans in 2005 was $25.5 billion, including refinance mortgages of $14.2 billion, purchase mortgages of $6.2 billion and home equity loans of $4.3 billion.

Operating Income Before Amortization decreased 30% to $46.5 million in 2006, negatively impacted by increased marketing expenses and lower close rates as described in the three month discussion.

Operating income decreased 27% to $34.0 million in 2006 due to the decrease in Operating Income Before Amortization described above, partially offset by a $5.2 million decrease in amortization of intangibles and a $2.5 million decrease in non-cash compensation expense.

Media & Advertising

Media & Advertising consists of the results of IAC Search & Media (since its acquisition on July 19, 2005), Citysearch and Evite.

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Revenue grew 62% to $135.5 million, primarily due to the inclusion of a full quarter of results from IAC Search & Media in 2006 and increased traffic at Citysearch, which favorably impacted its pay-for-performance revenue.

Operating Income Before Amortization increased 71% to $15.9 million in 2006 primarily due to the inclusion of a full quarter of results from IAC Search & Media in 2006.

Operating loss increased to $2.1 million in 2006 from a loss of $0.9 million in 2005 despite the increase in Operating Income Before Amortization described above primarily due to a $14.6 million increase in amortization of non-cash marketing, partially offset by a $6.8 million decrease in the amortization of intangibles.

On a standalone basis, IAC Search & Media revenue increased 34% compared to its prior year period. Revenue growth was primarily driven by an increase in queries and higher revenue per query across most properties. During the quarter, Ask.com reached the anniversary of the August 2005 demonetization of the site, which reduced the number of sponsored links at the top of the page and had the initial effect of lowering revenue in the prior period. Network revenue growth outpaced proprietary revenue growth primarily due to an increase in syndicated search results. Proprietary revenue growth was attributable to strength at Ask.com in the U.S. and the Fun Web Products business, partially offset by weakness at Ask.com in the U.K. IAC Search & Media Operating Income Before Amortization grew significantly due to the revenue growth noted above, partially offset by higher revenue share payments to third party traffic sources and increased marketing expense.

The Company expects to continue making significant investments in IAC Search & Media in order to enhance its competitive position. Such investments include, but are not limited to, advertising and marketing expense, product development expense, and technology and infrastructure to support Ask.com and its other web properties.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Revenue and Operating Income Before Amortization grew to $384.4 million and $38.2 million, respectively, primarily due to the factors described above in the three month discussion. Additionally, Citysearch continues to benefit from increased revenue which led to improved Operating Income Before Amortization in the nine month period.

Operating loss increased to $19.9 million despite the increase in Operating Income Before Amortization described above primarily due to a $29.6 million increase in amortization of non-cash marketing and an $18.2 million increase in the amortization of intangibles resulting from the IAC Search & Media acquisition.

On a standalone basis, IAC Search & Media revenue increased 21% compared to its prior year period. Revenue growth was primarily driven by higher search queries, partially offset by a decline in non-search advertising revenue. Network revenue grew at a faster rate than proprietary revenue due to an increase in syndicated search results and traffic from our syndicated portals. Proprietary revenue growth was attributable to strength in the Fun Web Products business and at Ask.com in the U.S., partially offset by weakness at Ask.com in the U.K. IAC Search & Media profit margins were adversely impacted by increased marketing expense as well as higher revenue share payments to third party traffic sources and higher other operating expenses.

Membership & Subscriptions

Membership & Subscriptions sector results for the three and nine months ended September 30, 2006 were led by continued worldwide growth in subscribers and an increase in average revenue per subscriber at the Personals segment, as well as increased membership and confirmations at Vacations.

Vacations

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Vacations grew revenue by 10% to $72.9 million, driven by a 6% growth in confirmed vacations and higher average fees. Total active members increased 5% to 1.8 million.

Operating Income Before Amortization and operating income grew by 10% and 13%, respectively, to $29.1 million and $22.8 million, respectively, due primarily to the higher revenue noted above and, to a lesser extent, improved operating leverage as a result of growth in confirmations online. Vacations confirmed online were 25% during 2006 compared with 22% in 2005. Operating Income Before Amortization and operating income were also impacted by increased staffing costs.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Vacations grew revenue by 9% to $228.3 million, due to a 5% increase in confirmed vacations and higher average fees.

Operating Income Before Amortization and operating income grew by 10% and 13%, respectively, to $94.4 million and $75.5 million, respectively, due primarily to the factors described above in the three month discussion. Operating Income Before Amortization and operating income were also impacted by increased start-up costs associated with Vacations' online travel and lifestyle membership club, LiveItUp.

Personals

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Revenue grew 22% to $80.2 million, reflecting a 12% increase in worldwide paid subscribers to 1.3 million and an increase in the average revenue per paid subscriber due in part to a greater percentage of subscribers at higher package prices versus the prior year. International paid subscribers grew 13% over the prior year period driven by expansion in several markets, most notably the United Kingdom and Scandinavia.

Operating Income Before Amortization increased 16% to $19.3 million in 2006, growing at a slower rate than revenue due primarily to increased marketing expense in international markets.

Operating income increased 20% to $19.0 million, primarily due to the increase in Operating Income Before Amortization discussed above as well as a decrease in amortization of intangibles.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Revenue and Operating Income Before Amortization grew 28% and 31%, respectively, to $231.8 million and $42.5 million, respectively, primarily driven by factors described above in the three month discussion. Operating Income Before Amortization was also impacted by increased operating costs related to Chemistry.com, which launched nationally during the first quarter of 2006.

Operating income increased 27% to $37.6 million primarily due to the increase in Operating Income Before Amortization discussed above as well as a decrease in amortization of intangibles, partially offset by a $3.0 million increase in amortization of non-cash marketing.

Discounts

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Revenue increased 4% to $32.0 million in 2006 due to increased online and direct local coupon book sales.

Operating Income Before Amortization loss decreased 45% to a loss of $3.9 million, primarily due to the increase in revenue noted above, as well as decreased commissions, cost cutting initiatives and lower employee costs as a result of decreased head count.

Operating loss decreased 40% to a loss of $5.2 million in 2006, primarily due to the decrease in Operating Income Before Amortization loss described above and a decrease in amortization of intangibles.

Discounts' revenue is significantly seasonal with the majority of the segment's revenue and all of its profits earned in the fourth quarter.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Revenue decreased 15% to $75.5 million in 2006, due primarily to lower sales of the spring season product offering and lower local coupon book sales through schools and community groups, slightly offset by higher online and direct sales.

Operating Income Before Amortization loss increased 8% to a loss of $34.3 million, primarily due to lower revenue as noted above and higher advertising and promotion spending in the nine month period, partially offset by lower employee costs.

Operating loss increased 4% to a loss of $38.1 million in 2006, primarily due to the increase in Operating Income Before Amortization loss described above, partially offset by a decrease in amortization of intangibles.

Corporate and Other

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Corporate operating expenses in 2006 were $35.5 million compared with $110.3 million in 2005, of which $16.4 million and $83.8 million relate to non-cash compensation expense in 2006 and 2005, respectively. The decrease in non-cash compensation expense was principally due to a $67.0 million charge related to the modification of vested stock options in connection with the Spin-Off recognized in 2005, partially offset by increased expense associated with unvested stock options assumed in the IAC Search & Media acquisition, as well as expense associated with equity grants and modifications during and subsequent to the third quarter 2005. 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. Corporate operating expense comparisons in 2006 were also favorably impacted by transaction expenses and intercompany eliminations related to the Spin-Off of $5.2 million recognized in 2005.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Corporate operating expenses in 2006 were $129.7 million compared with $212.7 million in 2005, of which $68.3 million and $112.2 million relate to non-cash compensation expense in 2006 and 2005, respectively. Non-cash compensation expense decreased principally due to the factors described above in the three month discussion. Corporate operating expense comparisons in 2006 were also favorably impacted by transaction expenses and intercompany eliminations related to the Spin-Off of $34.3 million recognized in 2005, a favorable settlement of a lawsuit and lower professional fees.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

All IAC common stock share information has been adjusted to reflect IAC's one-for-two reverse stock split in August 2005.

As of September 30, 2006, the Company had $1.1 billion of cash and cash equivalents and restricted cash and cash equivalents and $805.3 million of marketable securities, including $287.0 million in funds representing amounts equal to the face value of tickets sold by Ticketing on behalf of its clients.

During the nine months ended September 30, 2006 and 2005, IAC purchased 34.0 million and 36.3 million shares of IAC common stock for aggregate consideration of $909.2 million and $1.4 billion, respectively. Additionally, on October 31, 2006, the Company announced that its Board of Directors authorized the repurchase of up to 60 million shares of IAC common stock which is in addition to the 8.8 million shares remaining under its earlier share repurchase authorization. IAC may purchase shares over an indefinite period of time on the open market, depending on those factors IAC management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

Net cash provided by operating activities attributable to continuing operations was $516.0 million in 2006 and net cash used in operating activities attributable to continuing operations was $455.4 million in 2005. The comparison of year over year cash provided by (used in) operating activities is affected by higher cash tax payments made in 2005, including $652.8 million related to the VUE gain, and the net use of $210.4 million in cash in 2005 to fund the increase in loans held for sale. The net change related to loans held for sale is offset by the net change in the warehouse lines of credit which is included within financing cash flows. Cash provided by operating activities in 2006 was also favorably impacted by higher operating income and higher non-cash expenses. This increase was partially offset by lower interest income and a smaller contribution from Ticketing client funds. The reduced contribution from Ticketing client funds of $64.9 million in 2006 compared with $78.7 million in 2005 is primarily due to timing of settlements with clients. There is a seasonal element to the inventory balances at HSN and the Discounts segment as inventory tends to be higher in the third quarter in anticipation of the fourth quarter selling season. Cornerstone Brands inventory levels tend to be higher in the second and third quarters to support their summer and fourth quarter selling seasons, respectively. During the nine months ended September 30, 2006, inventory, net of reserves, increased by $88.8 million to $425.9 million from $337.2 million at December 31, 2005 due primarily to inventory increases at the Retailing sector.

In accordance with the Company's adoption of SFAS 123R, excess tax benefits from stock-based awards of $14.1 million in 2006 are included as a component of cash flows from financing activities attributable to continuing operations. Excess tax benefits from stock-based awards in 2005 of $27.4 million were included as a component of cash flows from operating activities attributable to continuing operations. This change in classification negatively impacted the year over year comparison of net cash provided by operating activities attributable to continuing operations for the nine months ended September 30, 2006. This change in classification reduced the amounts we report as net cash provided by operating activities attributable to continuing operations and increased the amount we report as net cash provided by financing activities attributable to continuing operations in 2006. Total cash flow will not be impacted from what would have been reported under the prior accounting rules. Excess tax benefits from stock-based awards recorded in the year ended December 31, 2005 were $152.7 million. Total cash flow reflects net cash taxes paid of $99.3 million in 2006 compared to net cash taxes paid of $754.2 million in 2005.

Net cash provided by investing activities attributable to continuing operations in 2006 of $438.1 million primarily resulted from the net proceeds of $690.5 million related to the sales and maturities of marketable securities, partially offset by capital expenditures of $178.6 million and acquisitions, net of cash acquired, of $80.1 million. Net cash provided by investing activities attributable to continuing operations in 2005 of $1.6 billion primarily resulted from the proceeds generated from the sale of IAC's common and preferred interests in VUE of $1.9 billion, net proceeds of $381.1 million related to the maturities and sales of marketable securities and proceeds from the sale of EUVÍA of $183.0 million, partially offset by acquisitions, net of cash acquired, of $682.8 million and capital expenditures of $175.3 million. Cash acquisitions in 2005 primarily relate to Cornerstone Brands.

Net cash used in financing activities attributable to continuing operations in 2006 of $891.9 million was primarily due to the purchase of treasury stock of $927.1 million, principal payments on long-term obligations of $12.9 million and decreased net borrowings under various warehouse lines of credit of $38.8 million at LendingTree Loans. These cash outflows were partially offset by the proceeds from the issuance of common stock pursuant to stock option exercises of $49.8 million and the excess tax benefits from stock-based awards of $14.1 million. The decreased borrowings under the warehouse lines of credit are directly related to the changes in loans held for sale included within cash flows from operations. Net cash used in financing activities attributable to continuing operations in 2005 of $1.9 billion was primarily due to the purchase of treasury stock in the amount of $1.5 billion and the redemption of IAC's convertible preferred stock of $655.7 million, partially offset by the increased net borrowings under various warehouse lines of credit of $205.6 million, $80.0 million of borrowings under the Liberty Bond program and proceeds from the issuance of common stock pursuant to stock options exercised of $47.4 million.

Net cash used in discontinued operations in 2006 of $3.6 million relates primarily to the operations of Styleclick and Quiz TV Limited. Net cash provided by discontinued operations in 2005 of $695.7 million relates primarily to the operations of Expedia and EUVÍA. The Company does not expect future cash flows associated with existing discontinued operations to be significant.

As of September 30, 2006, the Company had $1.2 billion in short and long-term obligations, of which $344.3 million, consisting primarily of various warehouse lines of credit, are classified as current. Long-term debt consists primarily of the 7% Senior Notes due 2013 (the "2002 Senior Notes"), the Convertible Notes due 2008 and the Liberty Bonds due 2035. The Company's cash, cash equivalents and marketable securities and access to the capital markets is believed to be sufficient to fund its debt payments.

As of September 30, 2006, LendingTree Loans had warehouse lines of credit totaling $1.0 billion, of which $323.5 million was outstanding. Borrowings under the warehouse lines of credit are used to fund, and are secured by, consumer residential loans that are held for sale. Interest rates under these lines of credit fall within a range of 30-day LIBOR plus 75 - 100 basis points, depending on the underlying quality of the loans in the borrowing base and the length of time the borrowings remain outstanding, but may exceed this range under certain circumstances. Under the terms of the committed lines of credit, LendingTree Loans is required to maintain various financial and other covenants. Borrowings under these lines of credit are non-recourse to IAC and LendingTree. As of September 30, 2006, LendingTree Loans had committed lines aggregating $750 million, of which $250 million expire on August 31, 2007 and $500 million expire on November 30, 2007 and uncommitted lines aggregating $250 million. The committed lines of credit can be canceled at the option of the lender without default upon ninety-to-one hundred eighty days notice. LendingTree Loans believes that the availability under these lines is sufficient to fund its operating needs in the foreseeable future and intends to extend the facilities on or prior to expiration. Loans under the warehouse lines of credit are repaid from proceeds from the sale of loans held for sale by LendingTree Loans.

In connection with the IAC Search & Media acquisition, IAC guaranteed $115.0 million principal amount of the Convertible Notes, which are convertible at the option of the holders into shares of both IAC common stock and Expedia common stock at an initial conversion price of $13.34 per share, subject to certain adjustments. Upon conversion, IAC and Expedia have the right, subject to certain conditions, to deliver cash (or a combination of cash and shares) in lieu of shares of its respective common stock. During the nine months ended September 30, 2006, $79.3 million of Convertible Notes was converted into 3.0 million IAC common shares and 3.0 million Expedia common shares. The remaining outstanding principal amount of the Convertible Notes is $34.7 million at September 30, 2006. During October 2006, $14.5 million of Convertible Notes was converted into 0.5 million IAC common shares and 0.5 million Expedia common shares.

In connection with the financing of the construction of IAC's corporate headquarters, on August 31, 2005, the New York City Industrial Development Agency issued $80 million in aggregate principal amount of Liberty Bonds. Interest on the Liberty Bonds is payable semi-annually, at a rate of 5% per annum, on March 1 and September 1 of each year and commenced on March 1, 2006. IAC is obligated to make all principal, interest and other payments in respect of the Liberty Bonds, which mature on September 1, 2035. Liberty Bond proceeds may only be used for certain expenditures relating to the construction of IAC's corporate headquarters and may not be used for general corporate purposes. The Company expects that the remaining proceeds from the Liberty Bond financing will be spent during the year ending December 31, 2006.

IAC anticipates that it will need to make capital and other expenditures in connection with the development and expansion of its overall operations. The Company may make a number of acquisitions, which could result in the reduction of its cash balance or the incurrence of debt. Furthermore, capital and other expenditures are expected to be higher than current amounts over the next several years, primarily due to the construction of IAC's new corporate headquarters, which will result in increased capital expenditures, and the improvement and expansion of technology infrastructure, including data centers, which is expected to result in increased capital and/or operating expenditures.

We believe that our financial situation would enable us to absorb a significant potential downturn in business. The Company has considered its anticipated operating cash flows in 2006, cash, cash equivalents and marketable securities, borrowing capacity under warehouse lines of credit and access to capital markets and believes that these are sufficient to fund its operating needs, including commitments and contingencies and capital and investing commitments for the foreseeable future.

Seasonality

During 2005, the Company's consolidated results were heavily weighted to the second half of the year, particularly in the fourth quarter, as a result of the seasonal nature of the Retailing sector and the Discounts segment. Higher marketing spending at the Personals and Lending segments in the early part of the year also contributed to increased profitability in the later half of 2005. The Company expects that these trends will continue throughout 2006.

The seasonality related to certain of the individual segments is as follows:

Seasonality impacts IAC's Retailing sector, with sales highest in the fourth quarter, but not to the same extent it impacts the retail industry in general.

Ticketing revenue is impacted by fluctuations in the availability of events for sale to the public, which vary depending upon scheduling by our venue clients. Due to the generally highest level of ticket on-sales for events, the second quarter of the year generally experiences the highest revenue levels.

Lending and Real Estate revenue is subject to the seasonal trends of the U.S. housing market. Home sales typically rise during the spring and summer months and decline during the fall and winter months. Refinancing activity is principally driven by mortgage interest rates.

Seasonal and cyclical patterns have begun to develop in IAC's Media & Advertising sector, including advertising sales being lower during the summer vacation period and search queries being strongest in the fourth quarter and weakest in the third quarter. Furthermore, seasonality in the retail industry may also continue to affect the prices advertisers are willing to pay for online inventory and keywords.

Revenue from existing members in the Vacations segment is influenced by the seasonal nature of planned family travel with the first quarter generally experiencing the strongest bookings and the fourth quarter generally experiencing weaker bookings.

Discounts' revenue is significantly seasonal with the majority of the segment's revenue and all of its profits earned in the fourth quarter.

Recent Accounting Pronouncements

On July 13, 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from SFAS No. 5, "Accounting for Contingencies."

FIN 48 utilizes a two-step process to evaluate tax positions. Recognition (step one) occurs when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) occurs only if it is determined that a tax position meets the more likely than not recognition threshold. Under step two, the tax position is measured to determine the amount of benefit to recognize in the financial statements. The tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, which is more likely than not to be realized on ultimate settlement. FIN 48's use of the term "more likely than not" in steps one and two is consistent with how that term is used in SFAS No. 109, "Accounting for Income Taxes."

FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The Company will adopt FIN 48 effective January 1, 2007 and is currently assessing its impact on the Company's consolidated financial position, results of operations and cash flows.

Refer to Note 2 to the consolidated financial statements on pages 6 through 8 for a description of other recent accounting pronouncements.

IAC'S PRINCIPLES OF FINANCIAL REPORTING

IAC reports Operating Income Before Amortization as a supplemental measure to GAAP. This measure is one of the primary metrics by which we evaluate the performance of our businesses, on which our internal budgets are based and by which management is compensated. We believe that investors should have access to, and we are obligated to provide, the same set of tools that we use in analyzing our results. This non-GAAP measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. We provide and encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measure which we discuss below.

Definition of IAC's Non-GAAP Measure

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

Pro Forma Results

We will only present Operating Income Before Amortization on a pro forma basis if we view a particular transaction as significant in size or transformational in nature. For the periods presented in this report, there are no transactions that we have included on a pro forma basis.

One-Time Items

Operating Income Before Amortization is presented before one-time items, if applicable. These items are truly one-time in nature and non-recurring, infrequent or unusual, and have not occurred in the past two years or are not expected to recur in the next two years, in accordance with SEC rules. GAAP results include one-time items. For the periods presented in this report, there are no adjustments for any one-time items.

Non-Cash Expenses That Are Excluded From IAC's Non-GAAP Measure

Non-cash compensation expense consists principally of expense associated with the grants, including unvested grants assumed in acquisitions, of restricted stock, restricted stock units and stock options. These expenses are not paid in cash and we include the related shares in our fully diluted shares outstanding which, for restricted stock units and stock options, are included on a treasury method basis.

Amortization of non-cash marketing consists of non-cash advertising secured from Universal Television as part of the transaction pursuant to which VUE was created, and the subsequent transaction by which IAC sold its partnership interests in VUE (collectively referred to as the "NBC Universal Advertising"). The NBC Universal Advertising is available for television advertising on various NBC Universal network and cable channels without any cash cost.

The NBC Universal Advertising is excluded from Operating Income Before Amortization because it is non-cash and generally is incremental to the advertising the Company otherwise secures as a result of its ordinary cost/benefit marketing planning process. Accordingly, the Company's aggregate level of advertising, and the increased concentration of that advertising on NBC Universal network and cable channels, does not reflect what our advertising effort would otherwise be without these credits, which will expire on September 30, 2008 if not exhausted before then. As a result, management believes that treating the NBC Universal Advertising as an expense does not appropriately reflect its true cost/benefit relationship, nor does it best reflect the Company's long-term level of advertising expenditures. Nonetheless, while the benefits directly attributable to television advertising are always difficult to determine, and especially so with respect to the NBC Universal Advertising due to its incrementality and heavy concentration, it is likely that the Company does derive benefits from it, though management believes such benefits are generally less than those received through its regular advertising for the reasons stated above. Operating Income Before Amortization therefore has the limitation of including those benefits while excluding the associated expense.

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

RECONCILIATION OF OPERATING INCOME BEFORE AMORTIZATION

For a reconciliation of consolidated Operating Income Before Amortization to operating income and net earnings available to common shareholders for the three and nine months ended September 30, 2006 and 2005, see Note 6 to the consolidated financial statements on pages 16 through 21.

For a reconciliation of Operating Income Before Amortization to operating income (loss) for the Company's operating segments and to net earnings available to common shareholders in total, see Note 7 to the consolidated financial statements on pages 22 through 25.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

Interest Rate Risk

The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's investment portfolio, loans held for sale and long-term debt, including the current portion thereof, and its warehouse lines of credit. The Company invests its excess cash in debt securities of governments, governmental agencies and high quality corporate issuers. The portfolio is reviewed on a periodic basis and adjusted in the event that the decline in fair value is determined to be other-than-temporary.

Based on the Company's total debt investment securities as of September 30, 2006, a 100 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the debt investment securities by approximately $7.3 million. Such potential increase or decrease in fair value is based on certain simplifying assumptions, including a constant level and rate of debt securities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period. Conversely, since almost all of the Company's cash balance of approximately $1.1 billion is invested in variable rate interest earning assets, the Company would also earn more (less) interest income due to such an increase (decrease) in interest rates.

At September 30, 2006, the Company's outstanding debt approximated $1.2 billion, with a substantial portion bearing fixed rates. If market rates decline, the Company runs the risk that the related required payments on the fixed rate debt will exceed those based on market rates. As part of its risk management strategy, the Company uses derivative instruments, including interest rate swaps, to hedge a portion of this interest rate exposure. The Company's intent is to offset gains and losses resulting from this exposure with losses and gains on the derivative contracts used to hedge it, thereby reducing volatility of earnings and protecting fair values of assets and liabilities. The Company's objective in managing its exposure to interest rate risk on its long-term debt is to maintain its mix of floating rate and fixed rate debt within a certain range. In 2004 and 2003, the Company entered into interest rate swap agreements related to a portion of the 2002 Senior Notes, which allow IAC to receive fixed rate amounts in exchange for making floating rate payments based on the LIBOR. As of September 30, 2006, of the $750 million principal amount outstanding under the 2002 Senior Notes, the interest rate is fixed on $400 million at 7% and floating on $350 million, with the rate based on a spread over 6-month LIBOR. To further manage risk, the Company unwound swap agreements for nominal gains in 2004 and 2005, which are being amortized over the remaining life of the 2002 Senior Notes. The changes in fair value of the interest rate swaps at September 30, 2006 resulted in a loss of $11.1 million which has been entirely offset by a corresponding gain attributable to the fixed rate debt.

The majority of the Company's outstanding fixed-rate debt at September 30, 2006 relates to the $750 million outstanding under the 2002 Senior Notes, the $34.7 million outstanding under the Convertible Notes and the $80 million outstanding under the Liberty Bonds. Excluding $350 million under the 2002 Senior Notes, which currently pays a variable interest rate as a result of the outstanding swap agreements noted above, a 100 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the fixed-rate debt by approximately $33.8 million. Such potential increase or decrease in fair value is based on certain simplifying assumptions, including a constant level and rate of fixed-rate debt for all maturities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period. If the LIBOR rates were to increase (decrease) by 100 basis points, then the annual interest payments on the $350 million of variable-rate debt would have increased (decreased) by $3.5 million. Such potential increase or decrease in interest payments are based on certain simplifying assumptions, including a constant level and rate of variable-rate debt for all maturities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

LendingTree Loans' mortgage banking operations expose the Company to interest rate risk for loans originated until those loans are sold in the secondary market ("loans held for sale"). In addition, LendingTree Loans provides interest rate lock commitments ("IRLCs") to fund mortgage loans at interest rates previously agreed upon with the borrower for specified periods of time, which also expose it to interest rate risk.

LendingTree Loans hedges the changes in fair value of certain loans held for sale primarily by using mortgage forward delivery contracts. These hedging relationships are designated as fair value hedges. For loans held for sale that are hedged with forward delivery contracts, the carrying value of the loans held for sale and the derivative instruments are adjusted for the change in fair value during the time the hedge was deemed to be highly effective. The effective portion of the derivative gain or loss as well as the offsetting hedged item loss or gain attributable to the hedged risk is recognized in the statement of operations as a component of revenue when each loan is sold. The net of these adjustments represent the ineffective portion of highly effective hedges which is also recorded as a component of revenue. If it is determined that the hedging relationship is not highly effective, hedge accounting is discontinued. When hedge accounting is discontinued, the affected loans held for sale are no longer adjusted for the changes in fair value. However, the changes in fair value of the derivative instruments are recognized in current earnings as a component of revenue. The fair value of the derivative instruments are recorded in "Other current assets" and /or "Other accrued liabilities" in the accompanying consolidated balance sheets. For the three and nine months ended September 30, 2006, the Company recognized gains less than $0.1 million and losses of $0.2 million, respectively, related to hedge ineffectiveness and losses of $0.8 million and $0.5 million, respectively, related to changes in the fair value of derivative instruments when hedge accounting was discontinued.

IRLCs are accounted for as derivative instruments and, therefore, are required to be recorded at fair value, with changes in fair value reflected in current period earnings. To manage the interest rate risk associated with the IRLCs, the Company uses derivative instruments, including mortgage forward delivery contracts. These instruments do not qualify for hedge accounting. The changes in fair value of these instruments for the three and nine months ended September 30, 2006 resulted in losses of $1.0 million and losses of less than $0.1 million, respectively, which have been recognized as a component of revenue in the accompanying consolidated statement of operations.

The fair values of derivative financial instruments at LendingTree Loans are primarily impacted by movements in market interest rates. Changes in the fair value of the derivative financial instruments would substantially be offset by changes in the fair value of the items for which risk is being mitigated. As of September 30, 2006, if market interest rates had increased by 100 basis points, the aggregate fair value of the derivative financial instruments and the hedged items at LendingTree Loans would have increased by $0.7 million. As of September 30, 2006, if market interest rates had decreased by 100 basis points, the aggregate fair value of the derivative financial instruments and the hedged items at LendingTree Loans would have decreased by $0.3 million.

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

Foreign Currency Exchange Risk

The Company conducts business in certain foreign markets, primarily in the European Union and Canada. The Company's primary exposure to foreign currency risk relates to investments in foreign subsidiaries that transact business in a functional currency other than the U.S. Dollar, primarily the

Euro, British Pound Sterling and Canadian Dollar. However, the exposure is mitigated since the Company has generally reinvested profits from international operations in order to grow the businesses.

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

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

Foreign exchange gains and losses were not material to the Company's earnings in 2006 and 2005. However, the Company periodically reviews its strategy for hedging transaction risks. The Company's objective in managing its foreign exchange risk is to minimize its potential exposure to the changes that exchange rates might have on its earnings, cash flows and financial position.

During the second quarter of 2003, one of the Company's foreign subsidiaries entered into a foreign exchange forward contract with a notional amount of $38.6 million which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary's functional currency. Foreign exchange re-measurement gains and losses related to the contract and liability are recognized each period in the statements of operations and are offsetting. The change in fair value of this foreign exchange forward contract at September 30, 2006 resulted in an unrealized loss of $6.7 million which has been offset by the remeasurement gain related to the liability.

Equity Price Risk

The Company has a minimal investment in equity securities of publicly traded companies. These investments, as of September 30, 2006, were considered available-for-sale and included in long-term assets with the unrealized gain deferred as a component of shareholders' equity. It is not customary for the Company to make significant investments in equity securities as part of its marketable securities investment strategy.

Following the Spin-Off, derivative liabilities were created due to IAC's obligation to deliver shares of both IAC common stock and Expedia common stock upon conversion of the Convertible Notes and exercise of certain IAC warrants. Derivative assets were also created due to Expedia's contractual obligation to deliver shares of Expedia common stock to IAC upon conversion by the holders of the Convertible Notes and upon exercise of the warrants. Both the derivative liabilities and derivative assets are marked to market each quarter, and the changes in fair values, which are based upon changes in both IAC common stock and Expedia common stock, are recognized in current earnings as a component of other income (expense). The net fair value adjustments recognized in current earnings during the three and nine months ended September 30, 2006 were net losses of $2.7 million and $3.0 million, respectively.

Item 4. Controls and Procedures

The Company monitors and evaluates on an ongoing basis its disclosure controls and internal control over financial reporting in order to improve their overall effectiveness. In the course of this evaluation, the Company modifies and refines its internal processes as conditions warrant.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, including our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined by

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

As required by Rule 13a-15(d) of the Exchange Act, the Company, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, also evaluated whether any changes occurred to the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, such control. Based on that evaluation, there has been no such change during the period covered by this report.

PART II
OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

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

Securities Class Action Litigation against IAC

This litigation, *In re IAC/InterActiveCorp Securities Litigation*, pending in the United States District Court for the Southern District of New York and arising out of the Company's August 4, 2004 announcement of its earnings for the second quarter of 2004, is described in detail on pages 28-29 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the "2005 10-K"). The consolidated amended complaint, filed on May 20, 2005, generally alleges that the value of the Company's stock was artificially inflated by pre-announcement statements about its financial results and forecasts that were false and misleading due to the defendants' alleged failure to disclose various problems faced by the Company's travel businesses. The plaintiffs seek to represent a class of shareholders who purchased IAC common stock between March 21, 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 10(b)(5) promulgated thereunder, as well as Sections 11 and 15 of the Securities Act of 1933, and seeks damages in an unspecified amount.

As previously noted in the 2005 10-K, the two related shareholder derivative actions (*Garber* and *Butler*) have been consolidated with the securities class action for pre-trial purposes. The consolidated shareholder derivative complaint, filed on July 5, 2005 against IAC (as a nominal defendant) and sixteen current or former officers or directors of the Company or its former Expedia travel business, is based upon factual allegations similar to those in the securities class action and 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 the complaints in both the securities class action and the shareholder derivative suits. The plaintiffs opposed the motions. On October 12, 2006, the Court heard oral argument on the motions to dismiss, which 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

These two purported class actions, one pending in Illinois and the other in California, are described in detail on pages 29-30 of the 2005 10-K. *See Mitchell B. Zaveduk, Individually and as the Representative of a Class of Similarly Situated Persons v. Ticketmaster*, No. 02-CH-21148 (Circuit Court, Cook County); *Curt Schlessinger et al. v. Ticketmaster*, No. BC304565 (Superior Court, Los Angeles County). Both lawsuits allege in essence that it is unlawful for Ticketmaster not to disclose that the fee it charges to customers wishing to have their tickets delivered by UPS contains a profit component. The California lawsuit also alleges that Ticketmaster's website disclosures in respect of its ticket order-processing fees constitute false advertising in violation of California law. Recent noteworthy developments in the California case are described below.

On August 14, 2006, the plaintiffs in the California case filed a motion for class certification; on October 16, Ticketmaster opposed the motion; and a hearing on the motion is scheduled for December 11. On September 25, 2006, Ticketmaster filed a motion for judgment on the pleadings; on October 4, the plaintiffs opposed the motion; on October 11, Ticketmaster filed its reply brief in support of the motion; and on October 18, the Court heard oral argument on the motion, which remains pending.

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 1A. ***Risk Factors***

Cautionary Statement

This quarterly report on Form 10-Q contains "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The use of words such as "anticipates," "estimates," "expects," "intends," "plans" and "believes," among others, generally identify forward-looking statements. These forward-looking statements include, among others, statements relating to: IAC's future financial performance, IAC's business prospects and strategy, anticipated trends and prospects in the various industries in which IAC's businesses operate 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: changes in economic conditions generally or in any of the markets or industries in which IAC's businesses operate, changes in senior management at IAC and/or its businesses, the rate of online migration in the various markets and industries in which IAC's businesses operate, technological changes, regulatory changes, changes in the interest rate environment or a further slowdown in the domestic housing market, effectiveness of hedging activities, changes affecting distribution channels, failure to comply with existing laws, consumer acceptance of new products and services, changes in the advertising market and the ability of IAC to expand successfully in international markets. Certain of these and other risks and uncertainties are discussed in IAC's filings with the SEC, including in Part I, "Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2005. 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

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2005, which could materially affect our business, financial condition or future results. The risks described in our annual report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

Issuer Purchases of Equity Securities

The following table sets forth purchases by the Company of its common stock during the quarter ended September 30, 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	(d) Maximum Number of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs (2) (3)
July 2006	6,004,546	$ 24.75	6,004,546	15,246,155
August 2006	5,017,656	$ 26.43	5,017,656	10,228,499
September 2006	1,389,206	$ 27.94	1,389,206	8,839,293
Total	12,411,408	$ 25.79	12,411,408	8,839,293

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

(2) Represents shares that were repurchased or may yet be purchased, as applicable, pursuant to a repurchase authorization previously announced in February 2006. IAC may purchase shares over an indefinite period of time on the open market, depending on those factors IAC management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

(3) On October 31, 2006, the Company announced that its Board of Directors authorized the repurchase of up to 60 million shares, which is in addition to the approximately 8.8 million shares 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.

Item 6. ***Exhibits***

Exhibit Number	Description	Location
3.1	Restated Certificate of Incorporation of IAC/InterActiveCorp.	Exhibit 3.1 to IAC's Registration Statement on Form 8-A/A, filed on August 12, 2005.
3.2	Certificate of Designations of Series B Cumulative Convertible Preferred Stock of IAC/InterActiveCorp.	Exhibit 3.2 to IAC's Registration Statement on Form 8-A/A, filed on August 12, 2005.
3.3	Amended and Restated ByLaws of IAC/InterActiveCorp.	Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on September 20, 2002.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.	
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.	
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.	
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.	

Filed herewith.

Furnished herewith.

SIGNATURES

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

Date: November 7, 2006

IAC/INTERACTIVECORP

By: /s/ THOMAS J. MCINERNEY

Thomas J. McInerney
Executive Vice President and Chief Financial Officer

Signature	Title	Date
/s/ THOMAS J. MCINERNEY Thomas J. McInerney	Executive Vice President and Chief Financial Officer	November 7, 2006

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