

IAC/INTERACTIVECORP
Form 10-Q
May 10, 2007

As filed with the Securities and Exchange Commission on May 10, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2007

or

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

For the transition period from _____ to _____

Commission File No. 0-20570

IAC/INTERACTIVECORP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

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

555 West 18th Street, New York, New York 10011

(Address of Registrant's principal executive offices)

(212) 314-7300

(Registrant's telephone number, including area code)

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

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

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

As of April 27, 2007, the following shares of the Registrant's common stock were outstanding:

Common Stock, including 230,986 shares of restricted stock	261,903,716
Class B Common Stock	25,599,998
Total outstanding Common Stock	287,503,714

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of April 27, 2007 was \$8,220,544,910. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant are assumed to be affiliates of the Registrant.

PART I

FINANCIAL INFORMATION

Item 1. *Consolidated Financial Statements*IAC/INTERACTIVECORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2007	2006
	(In thousands, except per share data)	
Product sales	\$ 808,793	\$ 792,533
Service revenue	786,175	656,670
Net revenue	1,594,968	1,449,203
Cost of sales - product sales (exclusive of depreciation shown separately below)	503,387	485,432
Cost of sales - service revenue (exclusive of depreciation shown separately below)	335,073	254,677
Gross profit	756,508	709,094
Selling and marketing expense	344,680	320,871
General and administrative expense	212,010	182,991
Other operating expense	36,975	33,610
Amortization of non-cash marketing	507	8,464
Amortization of intangibles	30,231	52,022
Depreciation	39,138	39,982
Operating income	92,967	71,154
Other income (expense):		
Interest income	19,957	18,914
Interest expense	(15,069)	(15,156)
Equity in income of unconsolidated affiliates	7,847	9,169
Other income (expense)	800	(4,255)
Total other income, net	13,535	8,672
Earnings from continuing operations before income taxes and minority interest	106,502	79,826
Income tax provision	(40,532)	(33,287)
Minority interest in income of consolidated subsidiaries	(113)	(123)
Earnings from continuing operations	65,857	46,416
(Loss) income from discontinued operations, net of tax	(3,766)	767
Net earnings available to common shareholders	\$ 62,091	\$ 47,183
Earnings per share from continuing operations:		
Basic earnings per share	\$ 0.23	\$ 0.15
Diluted earnings per share	\$ 0.22	\$ 0.14
Net earnings per share available to common shareholders:		
Basic earnings per share	\$ 0.22	\$ 0.15
Diluted earnings per share	\$ 0.20	\$ 0.14

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

**IAC/INTERACTIVECORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	March 31, 2007		December 31, 2006	
	(unaudited)		(audited)	
	(In thousands)			
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$	1,221,167	\$	1,428,140
Restricted cash and cash equivalents		29,465		27,855
Marketable securities		787,444		897,742
Accounts receivable, net of allowance of \$29,167 and \$30,052, respectively		584,314		528,505
Loans held for sale, net		410,059		345,896
Inventories		391,779		362,196
Deferred income taxes		50,742		33,426
Prepaid and other current assets		210,523		188,577
Total current assets		3,685,493		3,812,337
Property, plant and equipment, net		623,030		612,161
Goodwill		7,024,119		6,972,697
Intangible assets, net		1,436,675		1,463,997
Long-term investments		175,060		168,791
Other non-current assets		170,224		164,440
TOTAL ASSETS	\$	13,114,601	\$	13,194,423
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES:				
Current maturities of long-term obligations and short-term borrowings	\$	432,053	\$	358,831
Accounts payable, trade		265,625		287,628
Accounts payable, client accounts		425,967		304,800
Deferred revenue		164,585		147,120
Income taxes payable				518,994
Accrued expenses and other current liabilities		570,038		635,816
Total current liabilities		1,858,268		2,253,189
Long-term obligations, net of current maturities		835,210		857,103
Income taxes payable		243,988		
Other long-term liabilities		154,312		160,263
Deferred income taxes		983,027		1,129,994
Minority interest		24,792		24,881
SHAREHOLDERS EQUITY:				
Preferred stock \$.01 par value; authorized 100,000,000 shares; 758 and 846 shares, respectively, issued and outstanding				
Common stock \$.001 par value; authorized 1,600,000,000 shares; issued 412,435,251 and 410,485,690 shares, respectively, and outstanding 261,621,287 and 267,232,782 shares, including 230,986 and 231,204 shares of restricted stock, respectively		412		410
Class B convertible common stock \$.001 par value; authorized 400,000,000 shares; issued 32,314,998 shares and outstanding 25,599,998 shares		32		32
Additional paid-in capital		14,686,229		14,636,478
Retained earnings		803,499		320,711
Accumulated other comprehensive income		78,200		76,505
Treasury stock 150,813,964 and 143,252,908 shares, respectively		(6,548,370)		(6,260,145)
Note receivable from key executive for common stock issuance		(4,998)		(4,998)
Total shareholders equity		9,015,004		8,768,993
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$	13,114,601	\$	13,194,423

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

IAC/INTERACTIVECORP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited)

	Preferred Stock \$.01 Par Value		Common Stock \$.001 Par Value		Class B Convertible Common Stock \$.001 Par Value		Additional Paid in Capital	Retained Earnings	Accum Other Comp. Income	Treasury Stock	Note Receivable from Key Executive for Common Stock Issuance
	\$	Shares	\$	Shares	\$	Shares					
	(In thousands)										
Balance as of December 31, 2006	\$ 8,768,993	\$ 1	\$ 410	410,486	\$ 32	32,315	\$ 14,636,478	\$ 320,711	\$ 76,505	\$ (6,260,145)	\$ (4,998)
Comprehensive income:											
Net earnings for the three months ended March 31, 2007	62,091							62,091			
Unrealized gains on available for sale securities	1,355								1,355		
Foreign currency translation	2,802								2,802		
Net losses on derivative contracts	(2,462)								(2,462)		
Comprehensive income	63,786										
Non-cash compensation expense	23,738						23,738				
Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other	12,698		2	1,724			12,696				
Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other	5,308						5,308				
Issuance of common stock upon conversion of convertible notes and exercise of certain warrants	8,009			225			8,009				
Purchase of treasury stock	(288,225)									(288,225)	
Cumulative effect of adoption of FIN 48	420,697							420,697			
Balance as of March 31, 2007	\$ 9,015,004	\$ 1	\$ 412	412,435	\$ 32	32,315	\$ 14,686,229	\$ 803,499	\$ 78,200	\$ (6,548,370)	\$ (4,998)

Accumulated other comprehensive income, net of tax, is comprised of unrealized losses on available for sale securities of \$(3,042) and \$(4,397) at March 31, 2007 and December 31, 2006, respectively, foreign currency translation adjustments of \$81,349 and \$78,547 at March 31, 2007 and December 31, 2006, respectively, and net (losses) gains on derivative contracts of \$(107) and \$2,355 at March 31, 2007 and December 31, 2006, respectively.

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

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IAC/INTERACTIVECORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 31,	
	2007	2006
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings available to common shareholders	\$ 62,091	\$ 47,183
Less: loss (income) from discontinued operations, net of tax	3,766	(767)
Earnings from continuing operations	65,857	46,416
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Depreciation and amortization of intangibles	69,369	92,004
Non-cash compensation expense	24,226	23,966
Amortization of cable distribution fees	1,241	19,696
Amortization of non-cash marketing	507	8,464
Deferred income taxes	1,667	12,628
Gain on sales of loans held for sale	(48,617)	(61,536)
Equity in income of unconsolidated affiliates, net of dividends	(7,847)	(9,169)
Minority interest in income of consolidated subsidiaries	113	123
Increase in cable distribution fees		(5,434)
Changes in current assets and liabilities:		
Accounts receivable	17,611	6,906
Origination of loans held for sale	(1,997,623)	(2,300,927)
Proceeds from sales of loans held for sale	1,981,313	2,362,617
Inventories	(31,328)	(5,090)
Prepaid and other current assets	(13,436)	(11,276)
Accounts payable, income taxes payable and other current liabilities	(92,722)	(112,464)
Deferred revenue	19,531	19,742
Funds collected by Ticketmaster on behalf of clients, net	43,335	16,656
Other, net	12,368	17,755
Net cash provided by operating activities attributable to continuing operations	45,565	121,077
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(54,576)	(56,909)
Capital expenditures	(52,798)	(59,159)
Purchases of marketable securities	(166,202)	(251,569)
Proceeds from sales and maturities of marketable securities	283,319	448,120
(Increase) decrease in long-term investments	(250)	1,475
Other, net	35	(5,228)
Net cash provided by investing activities attributable to continuing operations	9,528	76,730
Cash flows from financing activities attributable to continuing operations:		
Borrowings under warehouse lines of credit	1,947,302	2,262,952
Repayments of warehouse lines of credit	(1,884,903)	(2,260,372)
Principal payments on long-term obligations	(11,484)	(10,612)
Purchase of treasury stock	(322,577)	(115,745)
Issuance of common stock, net of withholding taxes	12,699	20,352
Excess tax benefits from stock-based awards	6,889	7,011
Other, net	(7,860)	7,637
Net cash used in financing activities attributable to continuing operations	(259,934)	(88,777)
Total cash (used in) provided by continuing operations	(204,841)	109,030
Net cash used in operating activities attributable to discontinued operations	(5,748)	(11,745)
Net cash used in investing activities attributable to discontinued operations	(15)	(2,138)
Total cash used in discontinued operations	(5,763)	(13,883)
Effect of exchange rate changes on cash and cash equivalents	3,631	4,172
Net (decrease) increase in cash and cash equivalents	(206,973)	99,319
Cash and cash equivalents at beginning of period	1,428,140	987,080
Cash and cash equivalents at end of period	\$ 1,221,167	\$ 1,086,399

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 is an interactive conglomerate operating more than 60 diversified brands in sectors being transformed by the internet, online and offline...our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. Our operating businesses provide products and services through a diversified portfolio of specialized and global brands and are organized into the following sectors:

- Retailing, which includes the U.S. and International reporting segments;
- Transactions, which includes the Ticketmaster, LendingTree, Real Estate and ServiceMagic reporting segments;
- Media & Advertising; and
- Membership & Subscriptions, which includes the Interval, Match and Entertainment reporting segments.

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

Beginning with the first quarter of 2007, the Services sector has been renamed Transactions to more clearly reflect the nature of the activities of the businesses within that sector and several segment names were changed to identify the primary brand name within those segments, where practical. These name changes did not affect the composition of our reporting segments and did not have any impact on our financial reporting.

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, 2006.

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.

IAC/INTERACTIVECORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Recent Accounting Pronouncements

On February 15, 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value with the objective of reducing both the complexity in the accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, subject to certain conditions. Effects of the fair value measurements shall be reported in earnings. Fair value measurements relating to SFAS No. 159 cannot be applied retrospectively. The Company expects to adopt SFAS No. 159 effective January 1, 2008 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 statements of operations and cash flows for the three months ended March 31, 2006 have been reclassified to present PRC, which was previously reported in IAC s Transactions sector, and Quiz TV Limited and iBuy, which were previously reported in IAC s Emerging Businesses group, as discontinued operations. See Note 7 for a further description of discontinued operations. Due to the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), \$238.7 million of income tax liabilities at January 1, 2007 were reclassified from current to non-current income taxes payable as payment is not expected within twelve months of the current reporting date. In addition, certain other prior period amounts have been reclassified to conform with the current period presentation.

IAC/INTERACTIVECORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 GOODWILL AND INTANGIBLE ASSETS

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

	March 31, 2007		December 31, 2006	
Goodwill	\$	7,024,119	\$	6,972,697
Intangible assets with indefinite lives		1,117,444		1,117,444
Intangible assets with definite lives, net		319,231		346,553
Total goodwill and intangible assets, net	\$	8,460,794	\$	8,436,694

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At March 31, 2007, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted-Average Amortization Life (Years)
Purchase agreements	\$ 309,946	\$ (214,280)	\$ 95,666	6.8
Distribution agreements	213,677	(191,095)	22,582	4.2
Technology	204,835	(128,226)	76,609	4.5
Customer lists	198,294	(107,169)	91,125	7.7
Merchandise agreements	38,457	(33,330)	5,127	4.7
Other	77,994	(49,872)	28,122	4.4
Total	\$ 1,043,203	\$ (723,972)	\$ 319,231	

At December 31, 2006, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted-Average Amortization Life (Years)
Purchase agreements	\$ 308,242	\$ (203,857)	\$ 104,385	6.8
Distribution agreements	213,940	(189,139)	24,801	4.2
Technology	204,832	(120,918)	83,914	4.5
Customer lists	198,294	(102,216)	96,078	7.7
Merchandise agreements	38,457	(31,154)	7,303	4.7
Other	75,363	(45,291)	30,072	4.5
Total	\$ 1,039,128	\$ (692,575)	\$ 346,553	

IAC/INTERACTIVECORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 GOODWILL AND INTANGIBLE ASSETS (Continued)

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2006 balances, such amortization for the next five years and thereafter is estimated to be as follows (in thousands):

Years Ending December 31,	
2007	\$ 109,940
2008	84,855
2009	64,278
2010	42,361
2011	24,916
2012 and thereafter	20,203
	\$ 346,553

The following table presents the balance of goodwill by segment, including changes in the carrying amount of goodwill, for the three months ended March 31, 2007 (in thousands):

	Balance as of January 1, 2007	Additions	(Deductions)	Foreign Exchange Translation	Balance as of March 31, 2007
Retailing:					
U.S.	\$ 2,932,298	\$ 36	\$ (88)	\$	\$ 2,932,246
International	122,721			1,227	123,948
Total Retailing	3,055,019	36	(88)	1,227	3,056,194
Transactions:					
Ticketmaster	1,078,346	12,750	(1,289)	948	1,090,755
LendingTree	514,489		(270)		514,219
Real Estate	69,029		(35)		68,994
ServiceMagic	100,389		(10)		100,379
Total Transactions	1,762,253	12,750	(1,604)	948	1,774,347
Media & Advertising	1,352,764	12,622	(7,874)		1,357,512
Membership & Subscriptions:					
Interval	473,931				473,931
Match	232,222	8,931	(15)	652	241,790
Entertainment	66,703	927			67,630
Total Membership & Subscriptions	772,856	9,858	(15)	652	783,351
Emerging Businesses	29,805	22,910			52,715
Total	\$ 6,972,697	\$ 58,176	\$ (9,581)	\$ 2,827	\$ 7,024,119

Additions principally relate to acquisitions. Deductions principally relate to the establishment of a deferred tax asset related to acquired tax attributes, 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 and adjustments to the carrying value of goodwill based upon the finalization of the valuation of intangible assets and their related deferred tax impacts.

IAC/INTERACTIVECORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2007	December 31, 2006
Computer and broadcast equipment	\$ 815,905	\$ 774,587
Buildings and leasehold improvements	313,836	161,893
Furniture and other equipment	130,697	122,498
Projects in progress	45,052	198,893
Land	18,895	18,887
	1,324,385	1,276,758
Less: accumulated depreciation and amortization	(701,355)	