IAC/INTERACTIVECORP
Form S-4/A
June 16, 2005

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As Filed with the Securities and Exchange Commission on June 16, 2005

Registration Nos. 333-124303
333-124303-01

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 2
TO
FORM S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

IAC/INTERACTIVECORP

(Exact Name of Registrant as Specified in its Charter)

Delaware	**4833**	**59-2712887**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

152 West 57th Street
New York, New York 10019
(212) 314-7300
(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

EXPEDIA, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**4700**	**20-2705720**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

3150 139th Avenue SE
Bellevue, Washington 98005
(425) 679-7200
(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

Gregory R. Blatt, Esq.
Executive Vice President, General Counsel and Secretary
IAC/InterActiveCorp

152 West 57th Street
New York, New York 10019
(212) 314-7300
(Name, Address, including Zip Code, and Telephone Number,
including Area Code, of Agent For Service)

Copy to:
Pamela S. Seymon, Esq.
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019
(212) 403-1000

Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after this Registration Statement becomes effective and upon completion of the transactions described in the enclosed proxy statement/prospectus.

If the securities registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "Securities Act"), 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(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

The co-Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the co-Registrants 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 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.

June 17, 2005

Dear Stockholder:

You are invited to attend the Annual Meeting of Stockholders of IAC/InterActiveCorp scheduled on Monday, July 18, 2005 at 9:00 a.m. local time at The Pierre, 2 East 61st Street (at Fifth Avenue), New York, New York, 10021, for the purpose of obtaining stockholder approval of amendments to IAC's certificate of incorporation that will result in, among other things, the spin-off of Expedia, Inc., a Delaware corporation, and a number of other annual meeting proposals that are described in the notice of meeting on the following page. After the spin-off, Expedia will be an independent, separately traded public company that will consist of IAC's travel and travel-related businesses, subsidiaries and investments (other than Interval International and TV Travel Shop, which IAC will retain) and TripAdvisor. IAC will effect the spin-off by means of a reclassification of its capital stock that will result in the current holders of IAC capital stock having the right to receive a proportionate amount of Expedia capital stock, in a transaction that is generally tax free for federal income tax purposes.

See "Risk Factors" beginning on page 17 of this proxy statement/prospectus for information that you should consider in evaluating the spin-off proposal.

IAC's Board of Directors believes that the spin-off of Expedia from IAC and the other proposals submitted for your approval at the Annual Meeting are in the best interests of IAC and its stockholders. **IAC's Board of Directors recommends that you vote FOR the spin-off proposal and the other proposals submitted for your approval at the Annual Meeting.**

In addition to the votes required under applicable law, the IAC Board of Directors has conditioned the spin-off on the affirmative vote of holders of a majority of the shares of IAC common stock actually voting on the spin-off proposal, other than shares owned or controlled by IAC management. **Your vote is very important**. Whether or not you plan to attend the Annual Meeting, please take the time to vote by completing and mailing the enclosed proxy card. If you attend the Annual Meeting, you may vote in person if you wish, even though you have previously returned your proxy card. Please complete, sign, date and return the accompanying proxy card in the enclosed envelope to make certain your shares will be represented at the meeting. You may also submit a proxy for your shares by telephone or through the Internet by following the instructions on the enclosed proxy card.

Sincerely,

Barry Diller
Chairman and
Chief Executive Officer

The Securities and Exchange Commission and state securities regulators have not approved or disapproved the spin-off or the securities to be issued in the spin-off or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is first being mailed to stockholders on or about June 17, 2005.

IAC/INTERACTIVECORP
152 West 57th Street
42nd Floor
New York, New York 10019

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders:

IAC/InterActiveCorp ("IAC") is providing this proxy statement/prospectus to holders of IAC's common stock, Class B common stock and Series A preferred stock in connection with the solicitation of proxies by the Board of Directors of IAC for use at the Annual Meeting of Stockholders to be held at 9:00 a.m. local time on Monday, July 18, 2005 at The Pierre, 2 East 61st Street (at Fifth Avenue), New York, New York, 10021. At the Annual Meeting, stockholders will consider the spin-off of Expedia, Inc. as a separately traded public company that will consist of IAC's travel and travel-related businesses, subsidiaries and investments (other than Interval International and TV Travel Shop, which IAC will retain) and TripAdvisor. In particular, IAC will ask stockholders:

1. To approve amendments to the IAC certificate of incorporation that would effect the spin-off of Expedia, Inc. by:

    - Reclassifying each share of IAC $0.01 par value common stock into one share of IAC $0.001 par value common stock and 1/100 of a share of IAC Series 1 Mandatory Exchangeable Preferred Stock that will automatically exchange into one share of Expedia $0.001 par value common stock immediately following the reclassification; and

    - Reclassifying each share of IAC $0.01 par value Class B common stock into one share of IAC $0.001 par value Class B common stock and 1/100 of a share of IAC Series 2 Mandatory Exchangeable Preferred Stock that will automatically exchange into one share of Expedia $0.001 par value Class B common stock immediately following the reclassification.

2. To approve amendments to the IAC certificate of incorporation to effect a one-for-two reverse stock split of IAC common stock and IAC Class B common stock (which would take place immediately prior to, and would be conditioned upon completion of, the spin-off).

3. To approve the addition of new provisions to the IAC certificate of incorporation that would generally provide that no officer or director of IAC who is also an officer or director of Expedia will be liable to IAC or its stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to Expedia instead of IAC, or does not communicate information regarding a corporate opportunity to IAC that the officer or director has directed to Expedia.

4. To approve an amendment to the IAC certificate of incorporation that would delete the provision regarding removal of directors so that the removal of directors elected by the holders of IAC common stock, IAC Class B common stock and IAC Series A preferred stock voting together would require the affirmative vote of a majority of the voting power of the shares of all of those classes voting together, as currently provided in the IAC bylaws. Removal of directors elected exclusively by holders of IAC common stock would continue to require the affirmative vote of a majority of the holders of IAC common stock entitled to vote.

5. To elect 10 members of the IAC Board of Directors, each to hold office for a one-year term ending on the date of the next succeeding annual meeting of stockholders or until such director's successor shall have been duly elected and qualified.

6. To ratify the appointment of Ernst & Young LLP as independent auditors of IAC for the 2005 fiscal year.

7. To approve the IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan.

8. To transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

IAC may determine not to proceed with the spin-off and not to make the related amendments to its certificate of incorporation described above, notwithstanding the fact that IAC receives all necessary stockholder approvals with respect to the spin-off. Moreover, the changes described in items 2 and 3 above will be effective only in the event that IAC completes the spin-off.

Only holders of record of outstanding shares of IAC stock at the close of business on June 3, 2005 are entitled to notice of and to vote at the Annual Meeting and any adjournments of the Annual Meeting.

Only stockholders and persons holding proxies from stockholders may attend the Annual Meeting. Seating is limited, however, and admission to the Annual Meeting will be on a first-come, first-served basis. If your shares are registered in your name, you should bring a form of identification to the Annual Meeting. If your shares are held in the name of a broker, trust, bank or other nominee, you will need to bring a proxy or letter from that broker, trust, bank or other nominee that confirms you are the beneficial owner of those shares. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting.

By Order of the Board of Directors,

Gregory R. Blatt
Executive Vice President,
General Counsel
and Secretary

June 17, 2005

Additional Information

This proxy statement/prospectus:

- incorporates by reference important business and financial information about IAC that IAC has not included in or delivered with this proxy statement/prospectus; and

- does not include some of the information included in the registration statement on Form S-4 that IAC and Expedia have jointly filed with the SEC or information included in the exhibits to the registration statement.

Upon your written or oral request, IAC will make available to you without charge the information that IAC has incorporated by reference into this proxy statement/prospectus or that IAC and Expedia have filed as exhibits to the registration statement on Form S-4. You can obtain the documents incorporated by reference in this proxy statement/prospectus or filed as exhibits to the registration statement by requesting them in writing or by telephone from IAC at the following address and telephone number:

Investor Relations
IAC/InterActiveCorp
Carnegie Hall Tower
152 W. 57th Street, 42nd Floor
New York, NY 10019
Telephone: (212) 314-7400

You should make any request for documents by July 11, 2005 to ensure timely delivery of the documents prior to the Annual Meeting.

To find more information, see "Where You Can Find More Information."

Explanatory Notes

Except as otherwise stated herein, all per share information contained in this proxy statement/prospectus and the related annexes regarding IAC and Expedia capital stock for periods following the spin-off has been restated to reflect the one-for-two reverse stock split of IAC common stock and IAC Class B common stock that IAC intends to effect immediately prior to the completion of the spin-off.

Throughout this proxy statement/prospectus:

- the term "IAC," when used with respect to the period prior to the spin-off, refers to IAC/InterActiveCorp, a Delaware corporation, and its wholly owned subsidiaries, including IAC's travel and travel-related businesses, subsidiaries and investments, as well as TripAdvisor;

- the term "IAC," when used with respect to any periods following the spin-off, refers to IAC/InterActiveCorp, a Delaware corporation, and its wholly owned subsidiaries, other than TripAdvisor and those travel and travel-related businesses, subsidiaries and investments that Expedia (as defined below) will own following the spin-off;

- the term "Expedia," when used with respect to the period prior to the spin-off, refers to Expedia, Inc., a Delaware corporation, and a wholly-owned subsidiary of IAC, formed to effectuate the spin-off; and

- the term "Expedia," when used with respect to any periods following the spin-off, refers to Expedia, Inc., a Delaware corporation, which will own IAC's travel and travel-related businesses, subsidiaries and investments (other than Interval International and TV Travel Shop, which IAC will retain) and TripAdvisor.

TABLE OF CONTENTS

ii

This proxy statement/prospectus is based on information provided by IAC, Expedia and other sources that IAC and Expedia believe to be reliable. This proxy statement/prospectus summarizes certain documents filed as exhibits to a registration statement on Form S-4 that IAC and Expedia have filed jointly with the SEC. This proxy statement/prospectus forms a part of the registration statement. For more information about IAC, Expedia and their respective securities, you should refer to the registration statement and the information included in the exhibits thereto. For more information on how you can obtain copies of these documents, see "Where You Can Find More Information."

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND THE SPIN-OFF

The Annual Meeting

Q: **What matters will IAC stockholders vote on at the Annual Meeting?**

A: IAC stockholders will vote on the following proposals:

To approve amendments to the IAC certificate of incorporation that would effectuate the spin-off of Expedia by reclassifying the IAC common stock and IAC Class B common stock. This proxy statement/prospectus refers to the foregoing proposal as the "spin-off proposal." If IAC's stockholders approve the spin-off proposal and IAC completes the spin-off, the holders of IAC common shares immediately prior to the spin-off would initially own all of the IAC common shares and Expedia common shares immediately following the spin-off. IAC may determine not to proceed with the spin-off and not to make the related amendments to its certificate of incorporation described above, notwithstanding the fact that IAC receives all necessary stockholder approvals with respect to the spin-off;

To approve amendments to the IAC certificate of incorporation to effect a one-for-two reverse stock split of IAC common stock and IAC Class B common stock. This proxy statement/prospectus refers to the foregoing proposal as the "reverse stock split proposal." If IAC's stockholders approve the reverse stock split proposal and the spin-off proposal and IAC determines to proceed with the spin-off, IAC intends to effect the one-for-two reverse stock split immediately prior to the spin-off. IAC will not complete the one-for-two reverse stock split unless IAC completes the spin-off;

To approve the addition of new provisions to the IAC certificate of incorporation that would generally provide that no officer or director of IAC who is also an officer or director of Expedia

will be liable to IAC or its stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to Expedia instead of IAC, or does not communicate information regarding a corporate opportunity to IAC that the officer or director has directed to Expedia. This proxy statement/prospectus refers to the foregoing proposal as the "corporate opportunity proposal." IAC will only implement this proposal if IAC completes the spin-off;

To approve an amendment to the IAC certificate of incorporation that would delete the provision regarding removal of directors so that the removal of directors elected by the holders of IAC common stock, IAC Class B common stock and IAC Series A preferred stock voting together as a single class would require the affirmative vote of a majority of the voting power of the shares of all of those classes voting together, as currently provided in the IAC bylaws. Removal of directors elected exclusively by holders of IAC common stock would continue to require the affirmative vote of a majority of the holders of IAC common stock entitled to vote. This proxy statement/prospectus refers to the foregoing proposal as the "director removal proposal;"

To elect 10 members of the IAC Board of Directors, each to hold office for a one-year term ending on the date of the next succeeding annual meeting of stockholders or until such director's successor shall have been duly elected and qualified;

To ratify the appointment of Ernst & Young LLP as independent auditors of IAC for the 2005 fiscal year;

To approve the IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan; and

To transact such other business as may properly come before the meeting and any adjournments or postponements of the meeting.

Q: **What votes are required to approve the spin-off proposal and the director removal proposal?**

A: Under Delaware law, each of the spin-off proposal and the director removal proposal must be approved by:

- The vote of holders of a majority of the outstanding shares of IAC common stock, voting as a separate class;
- The vote of holders of a majority of the outstanding shares of IAC Class B common stock, voting as a separate class; and
- The vote of holders of a majority of the voting power of the outstanding shares of IAC common stock, IAC Class B common stock and IAC Series A preferred stock, voting together as a single class, with each share of IAC common stock entitled to one vote per share, each share of IAC Class B common stock entitled to ten votes per share and each share of IAC Series A preferred stock entitled to two votes per share. This proxy statement/prospectus refers to the IAC common stock, IAC Class B common stock and IAC Series A preferred stock, taken together, along with their respective votes per share as described in the preceding sentence, as the "IAC capital stock."

In addition to the votes required under Delaware law, based on the recommendation of an IAC Special Committee formed to review any aspects of the spin-off that could involve potential conflicts of interest, the IAC Board of Directors has further conditioned the spin-off on the affirmative vote of holders of a majority of the shares of IAC common stock actually voting on the spin-off proposal, other than shares owned or controlled by IAC management.

Q: **What vote is required to approve the reverse stock split proposal and the corporate opportunity proposal?**

A: Under Delaware law, each of the reverse stock split proposal and the corporate opportunity proposal must be approved by the vote of a majority of the voting power of the outstanding shares of IAC capital stock voting together as a single class.

Q: **What votes are required to elect directors to the IAC Board?**

A: The election of each of Barry Diller, Victor A. Kaufman, Edgar Bronfman, Jr., Marie-Josée Kravis, Steven Rattner, Alan Spoon and Diane Von Furstenberg as directors requires the affirmative vote of a plurality of the total number of votes cast by the holders of shares of IAC capital stock voting together as a single class.

The election of each of Donald R. Keough, Bryan Lourd and H. Norman Schwarzkopf as directors requires the affirmative vote of a plurality of the total number of votes cast by the holders of the shares of IAC common stock voting together as a separate class.

Q: **What vote is required to ratify the appointment of Ernst & Young LLP as IAC's Independent Auditors and to approve the IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan?**

A: Each of the ratification of the appointment of Ernst & Young LLP as IAC's independent auditors for 2005 and the approval of the IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan requires the affirmative vote of the holders of a majority of the voting power of the shares of IAC capital stock present in person or represented by proxy and voting together as a single class.

Q: **What is the impact on stockholder votes of arrangements as of the meeting record date among Mr. Diller, Liberty Media Corporation and Universal Studios, Inc.?**

A: As of the meeting record date, Mr. Diller held an irrevocable proxy over all IAC securities owned by Universal Studios, Inc., Liberty Media Corporation and their subsidiaries. This irrevocable proxy includes authority to vote on each of the proposals presented for approval at the Annual Meeting. As a result, as of the meeting record date, Mr. Diller, through shares that he owns as well as those

shares subject to the proxy, generally controls the vote of 22.7% of the IAC common stock and 100% of the IAC Class B common stock and, consequently, 62.0% of the combined voting power of the outstanding IAC capital stock. Thus, regardless of the vote of any other IAC stockholder, Mr. Diller has control over the vote on each matter submitted for stockholder approval at the Annual Meeting, other than (1) the separate class vote of IAC common stock with respect to the spin-off proposal, (2) the separate class vote of the shares of IAC common stock actually voting on the spin-off proposal (other than shares controlled by IAC management), (3) the separate class vote of IAC common stock with respect to the director removal proposal and (4) the election of the three directors that holders of IAC common stock elect as a separate class.

Q:

Who is entitled to vote at the Annual Meeting?

A:

You are entitled to vote at the Annual Meeting if you were a holder of IAC common stock, IAC Class B common stock or IAC Series A preferred stock at the close of business on June 3, 2005, the record date for the Annual Meeting.

Q:

What do I need to do now to vote at the Annual Meeting?

A:

The IAC Board of Directors is soliciting proxies for use at the Annual Meeting. Stockholders of record may vote their shares in any of four ways:

Submitting a Proxy by Mail: If you choose to submit your proxy by mail, simply mark your proxy, date and sign it, and return it in the postage-paid envelope provided;

Submitting a Proxy by Telephone: Submit a proxy for your shares by telephone by using the toll-free telephone number provided on your proxy card. Telephone voting is available 24 hours a day;

Submitting a Proxy by Internet: Submit your proxy via the Internet. The website for Internet proxy voting is on your proxy card, and Internet proxy voting is also available 24 hours a day; or

Voting in Person: If you were registered as a stockholder on IAC's books on June 3, 2005 or if you have a letter from your broker identifying you as a beneficial owner of shares, you may vote in person by attending the Annual Meeting.

Street name holders may submit a proxy by telephone or the Internet if their bank or broker makes those methods available, in which case the bank or broker will enclose the instructions with this proxy statement/prospectus. If you submit a proxy by telephone or via the Internet you should not return your proxy card. Instructions on how to submit a proxy by telephone or via the Internet are located on the proxy card enclosed with this proxy statement/prospectus.

The designated proxy will vote all proxies that you properly submit, and that you do not revoke, at the Annual Meeting in accordance with the instructions indicated on your proxy. If you do not provide instructions on your proxy, your designated proxy will vote FOR each of the proposals that IAC describes in this proxy statement/prospectus. Your designated proxy will not vote unsigned proxy cards at all and unsigned proxies will have the same effect as a vote against the spin-off proposal (except with respect to the vote of the shares of IAC common stock actually voting, other than those shares controlled by IAC management), the reverse stock split proposal, the corporate opportunity proposal and the director removal proposal.

If you hold your shares through a bank or broker, follow the voting instructions on the form you receive from your bank or broker.

Your vote is important. IAC encourages you to submit your proxy by telephone or Internet or by signing and returning the accompanying proxy card whether or not you plan to attend the Annual Meeting.

Q:

Can I change my vote?

A:

Yes. If you are a stockholder of record, you may change your vote or revoke your proxy at any time before the vote at the Annual Meeting by:

Delivering to The Bank of New York a written notice, bearing a date later than the proxy, stating that you revoke the proxy;

Submitting a later-dated proxy relating to the same shares by mail, telephone or the Internet prior to the vote at the Annual Meeting; or

Attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not, by itself, revoke a proxy).

You should send any written notice or new proxy card to IAC/InterActiveCorp c/o The Bank of New York at the following address: IAC/InterActiveCorp, P.O. Box 11001, New York, New York 10203-0001, or follow the instructions provided on your proxy card to submit a proxy by telephone or via the Internet. You may request a new proxy card by calling IAC's proxy solicitor, MacKenzie Partners, Inc., at 1-800-322-2885 (toll-free).

Q:

If I hold my shares in "street name" through my broker, will my broker vote my shares for me?

A:

Your broker will vote your shares only if you provide instructions to your broker on how to vote your shares. You should follow the directions that your broker provides regarding how to instruct your broker to vote your shares. If you fail to provide instructions to your broker, your broker will not vote your shares which will have the same effect as a vote against the spin-off proposal (except with respect to the vote of shares of IAC common stock actually voting, other than those shares controlled by IAC management), the reverse stock split proposal, the corporate opportunity proposal, the director removal proposal and the proposal to approve the IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan.

Q:

What happens if I abstain or don't vote?

A:

An abstention or failure to vote will have the same effect as a vote against the spin-off proposal (except with respect to the vote of the shares of IAC common stock actually voting, other than those shares controlled by IAC management), the reverse stock split proposal, the corporate opportunity proposal and the director removal proposal.

The Spin-Off Proposal

Q:

What is IAC proposing to do?

A:

IAC is proposing to spin off Expedia so that Expedia will become an independent, separately traded public company. After the spin-off, Expedia will consist of IAC's travel and travel-related businesses, subsidiaries and investments (other than Interval International and TV Travel Shop, which IAC will retain) and TripAdvisor. After the spin-off, IAC will continue to operate and/or manage its remaining businesses, subsidiaries and investments. For a description of these businesses, subsidiaries and investments, see "The Spin-Off Proposal Information About IAC After the Spin-Off." The holders of IAC common shares immediately prior to the spin-off would initially own all of the IAC common shares and Expedia common shares immediately following the spin-off.

Q:

Why is IAC proposing the Expedia spin-off?

A:

The Board of Directors believes that the spin-off would provide many benefits to IAC and its stockholders, including, among others:

Creating a pure-play travel business with an equity currency that would promote growth through acquisitions;

- Establishing IAC as a diversified interactive commerce company that is not dominated by its travel businesses and with an equity currency that could promote growth through acquisitions;

- Better aligning management performance with each company's respective performance; and

- Providing capital markets and investors with greater transparency into each of IAC and Expedia.

For a discussion of the IAC Board of Director's recommendation, see "Recommendation of IAC's Board of Directors."

Q:

What will I own after the Expedia spin-off?

A:

Immediately prior to the spin-off, IAC will effect a one-for-two reverse stock split. As a consequence, securities that are convertible into IAC common stock will be proportionately adjusted in accordance with their terms to give effect to the one-for-two reverse stock split. The following bullets describe the treatment of certain IAC securities in the spin-off:

- **IAC common stock:** For every two shares of IAC common stock that you own prior to the spin-off and the one-for-two reverse stock split, you will own one share of IAC common stock and one share of Expedia common stock immediately following the spin-off. Each share of IAC common stock and Expedia common stock that you own following the spin-off will be entitled to one vote per share. Holders will receive cash in lieu of fractional shares.

- **IAC Class B common stock:** For every two shares of IAC Class B common stock that you own prior to the spin-off and the one-for-two reverse stock split, you will own one share of IAC Class B common stock and one share of Expedia Class B common stock immediately following the spin-off. Each share of IAC Class B common stock and Expedia Class B common stock following the spin-off will be entitled to ten votes per share. Holders will receive cash in lieu of fractional shares.

- **IAC Series A preferred stock:** Each share of IAC Series A preferred stock will represent the right to receive, at the holder's election: (1) $50.00 in cash per share, plus accrued and unpaid dividends, (2) the IAC common stock and Expedia common stock that a holder of IAC Series A preferred stock would have received had the holder converted its Series A preferred stock into IAC common stock immediately prior to the spin-off or (3) one share of IAC Series B preferred stock and one share of Expedia Series A preferred stock, each of which will mirror in all material respects the terms of the current IAC Series A preferred stock, as adjusted to reflect the spin-off and the one-for-two reverse stock split.

- **Warrants to purchase IAC common stock:** IAC has outstanding a number of series of warrants subject to different terms and conditions. Generally, IAC warrants will be treated one of two ways in the spin-off, as set forth below. Except as otherwise described below and except to the extent otherwise provided under local law, following the spin-off, the IAC and Expedia warrants, as the case may be, generally will have the same terms and conditions as the warrants to purchase shares of IAC common stock had immediately prior to the spin-off.

  - Each publicly traded warrant to purchase shares of IAC common stock and certain other warrants, including warrants to purchase shares of IAC common stock issued in the 2002 VUE transaction, among others, will convert into a warrant to purchase shares of IAC common stock and a warrant to purchase shares of Expedia common stock, each of which will mirror in all material respects the terms of the current warrants to purchase shares of IAC common stock, as adjusted to reflect the spin-off and the one-for-two reverse stock split.

  - With respect to all other warrants to purchase shares of IAC common stock, following the spin-off, IAC will remain the contractually obligated party with respect to these warrants and each warrant will represent the right to receive upon exercise by the holders thereof that number of shares of IAC common stock and Expedia common stock that the warrant holder would have received had the holder exercised the warrant immediately prior to the spin-off and taking into account the one-for-two reverse stock split. Under the separation agreement, Expedia will contractually assume the obligation to deliver Expedia common stock to these warrant holders upon exercise.

Q:

Will the IAC and Expedia securities be listed on an exchange and publicly traded after the spin-off?

A:

IAC common stock currently trades on The Nasdaq National Market under the ticker symbol "IACI" and will continue to do so after the spin-off (as adjusted in connection with the spin-off and the one-for-two reverse stock split). Those IAC warrants that currently trade on The Nasdaq Stock Market under the ticker symbol "IACIW" will continue to trade on The Nasdaq Stock Market following the spin-off (as adjusted in connection with the spin-off and the one-for-two reverse stock split) under the ticker symbol "IACIW." Those IAC warrants that currently trade on The Nasdaq Stock Market under the ticker symbol "IACIZ" will continue to trade on The Nasdaq Stock Market following the spin-off (as adjusted in connection with the spin-off and the one-for-two reverse stock split) under the ticker symbol "IACIZ." IAC intends to seek to have the shares of IAC Series B preferred stock, if any, quoted on the OTC Bulletin Board under the ticker symbol "IACIP.OC." In order to do so, a broker-dealer in securities in the United States may be required to file with the National Association of Securities Dealers, Inc. a notice that will enable the broker-dealer to enter quotations for the IAC Series B preferred stock on the OTC Bulletin Board. There can be no assurance that a broker-dealer will file such a notice or, if filed, that quotations will be accepted on the OTC Bulletin Board. Further, there can be no assurance that if a broker-dealer commences to enter bid and asked quotations for the IAC Series B preferred stock on the OTC Bulletin Board that a viable and active trading market will develop.

Expedia has applied to list Expedia common stock on The Nasdaq National Market and has reserved the ticker symbol "EXPE." Expedia also has applied to list on The Nasdaq Stock Market the two series of Expedia warrants whose predecessor securities currently trade on The Nasdaq Stock Market under the ticker symbols "IACIW" and "IACIZ." These new Expedia warrants are expected to trade under the ticker symbols "EXPEW" and "EXPEZ." Trading in Expedia common stock and Expedia warrants under those symbols is expected to begin on the first business day following the date that IAC completes the spin-off. Expedia intends to seek to have the shares of Expedia Series A preferred stock, if any, quoted on the OTC Bulletin Board under the ticker symbol "EXPEP.OC," in the same manner that IAC intends to seek to have its Series B preferred stock listed. However, there can be no assurance that a viable and active trading market will develop.

Q:

Will a when-issued trading market develop for post-spin-off IAC and/or Expedia securities prior to the completion of the spin-off?

A:

"When-issued" trading refers to conditional purchases or sales transactions with respect to a security that has been authorized but is not yet issued and available. IAC currently expects, but cannot guarantee, that a when-issued trading market will develop with respect to IAC and Expedia publicly held securities prior to the completion of the spin-off. A when-issued market for post-spin-off IAC securities may develop as soon as IAC stockholder approval for the spin-off is obtained. A when-issue market for post-spin-off Expedia securities may develop after IAC stockholder approval for the spin-off is obtained and Expedia securities are registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. No assurance can be given that a when-issued trading market will, in fact, develop in either IAC or Expedia securities.

Q:

Does the IAC Board of Directors have to complete the spin-off if stockholders approve it?

A:

No. Regardless of stockholder approval, the IAC Board of Directors retains the ability to abandon the spin-off for any reason whatsoever.

Q:

Am I entitled to dissenters' rights or appraisal rights?

A:

No. You will not be entitled to dissenters' rights or appraisal rights in connection with the spin-off. See "No Dissenters' Rights."

Q:

When does IAC expect to complete the spin-off?

A:

If IAC stockholders approve the spin-off proposal at the Annual Meeting and all of the other conditions to the completion of the spin-off are satisfied, IAC currently expects to complete the spin-off during the third quarter of 2005. You should be aware that even if IAC stockholders approve the spin-off proposal, the IAC Board of Directors may abandon or delay the spin-off in its sole discretion. In addition, IAC has entered into an agreement to acquire Ask Jeeves, Inc. and has agreed not to complete the spin-off so long as the Ask Jeeves transaction is pending. Ask Jeeves stockholder approval is required to effect the Ask Jeeves transaction. Ask Jeeves has scheduled its special meeting of stockholders for Tuesday, July 19, 2005. See "Recent Developments." In any event, IAC currently expects that it will delay the completion of the spin-off for up to several weeks following stockholder approval of the spin-off in order to permit the development of a when-issued trading market in IAC common stock and Expedia common stock prior to completion of the spin-off.

Q:

Do I need to do anything with my certificates for IAC securities?

A:

The bullets below describe some of the mechanics relating to the exchange of your IAC securities for securities of each of IAC and Expedia following the spin-off.

IAC common stock: IAC will mail to each holder of IAC common stock a Letter of Transmittal with instructions that explain how to return certificated shares of IAC common stock to enable you to receive uncertificated shares of IAC common stock and Expedia common stock to which you are entitled following the spin-off (as described more fully below). Holders of IAC common stock may deliver their certificates representing shares of IAC common stock, along with a properly executed Letter of Transmittal and any other required documents, to the exchange agent identified in the Letter of Transmittal. The certificates will be canceled and each holder will receive the number of full shares of reclassified IAC common stock and Expedia common stock to which each older is entitled, after giving effect to the spin-off and the one-for-two reverse stock split, subject to receipt of cash in lieu of fractional shares.

Following the spin-off, reclassified IAC common stock and Expedia common stock will be issued electronically by way of direct registration, or in "uncertificated" form, which will eliminate the physical handling and safekeeping responsibilities inherent in owning transferable stock certificates and the need to return a duly executed stock certificate to effect a transfer. The Bank of New York will act as the registrar and transfer agent for IAC common stock and Expedia common stock after the spin-off. After the spin-off, you will be able to transfer shares of IAC common stock or Expedia common stock by mailing to The Bank of New York a transfer and assignment form, which The Bank of New York will provide to holders at no charge upon written request. Holders may request that their shares of IAC common stock or Expedia common stock be issued in certificated form by so indicating on the Letter of Transmittal or by requesting certificated shares in writing from The Bank of New York.

Publicly Traded Warrants to purchase IAC common stock: IAC's publicly traded warrants will be adjusted as described in this proxy statement/prospectus. Subject to adjustment for the one-for-two reverse stock split and the spin-off, the IAC publicly traded warrants will remain outstanding in electronic, uncertificated form and will continue to be governed by their existing

warrant agreements. In addition, Expedia will issue publicly traded Expedia warrants pursuant to adjustments to the IAC publicly traded warrants. These publicly traded Expedia warrants will be issued in electronic, uncertificated form without any action on the part of holders. At or prior to the completion of the spin-off, Expedia will deposit with Mellon Investor Services and The Bank of New York, the exchange and warrant agents for the Expedia publicly traded warrants, the new forms of warrant pursuant to the warrant agreements that will govern the Expedia warrants.

VUE Warrants to purchase IAC common stock: Warrants to purchase shares of IAC common stock issued in the 2002 VUE transaction will be adjusted as described in this proxy statement/prospectus. Subject to adjustment for the one-for-two reverse stock split and the spin-off, the IAC warrants issued in the 2002 VUE transaction will remain outstanding and continue to be governed by their existing warrant agreements. In addition, Expedia will issue Expedia warrants pursuant to adjustments to the IAC warrants issued in the 2002 VUE transaction. These Expedia warrants will be issued in certificated form promptly following the completion of the spin-off. At or prior to the completion of the spin-off, IAC will deposit with the applicable warrant agent the new forms of Expedia warrant.

All other Warrants to purchase IAC common stock: All other IAC warrants will be adjusted as described in this proxy statement/prospectus. Warrant holders will receive notice of these adjustments pursuant to the terms of the warrants. These warrants will otherwise remain outstanding and subject to their respective warrant agreements.

IAC Series A Preferred Stock: IAC will mail to each holder of IAC Series A preferred stock a Letter of Transmittal, Form of Election and related instructions that will allow each holder to indicate, on or prior to July 11, 2005, whether the holder chooses to receive (1) $50.00 in cash per share, plus accrued and unpaid dividends, (2) the IAC common stock and Expedia common stock that a holder of IAC Series A preferred stock would have received had the holder converted its IAC Series A preferred stock into IAC common stock immediately prior to the spin-off or (3) one share of IAC Series B preferred stock and one share of Expedia Series A preferred stock, each of which will mirror in all material respects the terms of the current IAC Series A preferred stock, as adjusted to reflect the one-for-two reverse stock split and the spin-off. Holders of IAC Series A preferred stock should deliver their certificates representing shares of IAC Series A preferred stock,

along with a properly executed Letter of Transmittal, Form of Election and any other required documents, to the exchange agent identified in the Letter of Transmittal. The certificates will be canceled and as promptly as practicable following the spin-off, the exchange agent will distribute to each holder cash or IAC and Expedia securities in accordance with each holder's election.

Q: **Whom can I call with questions?**

A: If you have any questions about the spin-off or the Annual Meeting, or would like copies of any of the documents referred to in this proxy statement/prospectus, you should call MacKenzie Partners, Inc. at 1-800-322-2885.

Q: **Where can I find more information about IAC and Expedia?**

A: You can find more information from various sources described under "Where You Can Find More Information."

SUMMARY

The following is a summary of some of the information contained in this proxy statement/prospectus. In addition to this summary, you should read the entire document carefully, including (1) the risks associated with the spin-off and investing in IAC securities and Expedia securities discussed under "Risk Factors" and (2) the unaudited pro forma condensed combined financial statements for each of IAC and Expedia and the historical combined financial statements and related notes for Expedia included in Annexes B, C and D, respectively, and the historical financial statements and related notes for IAC incorporated by reference from IAC's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and from IAC's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2005.

The summaries set forth under the captions " IAC/InterActiveCorp" and " Expedia" assume the completion of the acquisition of Ask Jeeves, which is expected to occur prior to the spin-off, and the completion of the spin-off.

IAC/INTERACTIVECORP

IAC/InterActiveCorp operates leading and diversified businesses in sectors being transformed by the internet, online and offline. IAC's 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 businesses described below. IAC enables billions of dollars of consumer-direct transactions for products and services via the internet and telephone.

IAC consists of the following businesses:

- Electronic Retailing, which includes HSN U.S. and HSN International;
- Ticketing, which includes Ticketmaster;
- Interval International;
- Personals, which includes Match.com;
- Citysearch, Evite, Entertainment Publications and ServiceMagic (since September 2004);
- Financial Services and Real Estate, which includes LendingTree and its affiliated brands and businesses; and
- Teleservices, which includes Precision Response Corporation, or PRC.

In addition, IAC has entered into an agreement to acquire Ask Jeeves, Inc., a leading provider of world-class information retrieval technologies, brands and services that are available to consumers across a range of platforms, including destination websites, downloadable search-based applications and portals. See "Recent Developments." IAC currently expects to complete the acquisition of Ask Jeeves, subject to the receipt of the requisite regulatory approvals and the satisfaction of customary closing conditions, during the summer of 2005. IAC has agreed not to complete the spin-off so long as the Ask Jeeves transaction is pending. Ask Jeeves stockholder approval is required to effect the Ask Jeeves transaction. Ask Jeeves has scheduled its special meeting of stockholders for Tuesday, July 19, 2005. Assuming the successful completion of the Ask Jeeves transaction, IAC will include Ask Jeeves following the spin-off.

For information regarding the results of IAC's historical operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in IAC's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and in IAC's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2005, which are incorporated by reference into this proxy statement/prospectus and the Unaudited Pro Forma Condensed Combined Financial Statements for IAC and the accompanying notes in Annex B.

IAC's principal executive offices are located at 152 West 57th Street, 42nd Floor, New York, New York 10019. IAC's telephone number is (212) 314-7300.

EXPEDIA

Expedia is among the world's leading travel services companies, making travel products and services available to leisure and corporate travelers in the United States and abroad through a diversified portfolio of brands, including Expedia.com, Hotels.com, Hotwire, Expedia Corporate Travel, Classic Custom Vacations and a range of other domestic and international brands and businesses.

Expedia's principal executive offices are located at 3150 139th Avenue Southeast, Bellevue, Washington 98005. Expedia's telephone number is (425) 679-7200.

THE SPIN-OFF

IAC has proposed to spin off Expedia so that Expedia will become an independent, separately traded public company. After the transaction, Expedia will consist of IAC's travel and travel-related businesses, subsidiaries and investments (other than Interval International and TV Travel Shop, which IAC will retain) and TripAdvisor. IAC will continue to own and operate its remaining businesses as an independent, separately traded public company.

Spin-Off (page 28)

IAC is proposing to effect the spin-off through amendments to its certificate of incorporation. If those amendments are approved by IAC's stockholders and IAC completes the spin-off, the holders of IAC common shares immediately prior to the spin-off will initially own all of the IAC common shares and Expedia common shares immediately following the spin-off.

Recommendation of the Special Committee (page 30)

The IAC Board of Directors established a Special Committee of independent directors to review any aspects of the proposed spin-off that could involve potential conflicts of interest (including the proposed terms of Expedia's capitalization, ownership and control and governance arrangements) and to make a recommendation to the IAC Board of Directors with respect to these matters. After completing its activities and deliberations, the Special Committee determined to recommend to the Board of Directors that it proceed with the spin-off of Expedia in the form proposed, subject to the approval of the spin-off proposal by a majority of the votes cast by the holders of shares of IAC common stock actually voting on the spin-off proposal, other than shares owned or controlled by IAC management.

Recommendation to Stockholders (page 31)

The IAC Board of Directors recommends that you vote FOR approval of the spin-off proposal. IAC's Board of Directors has carefully reviewed the terms of the spin-off and has determined that the spin-off is advisable and in the best interests of IAC and its stockholders.

Interests of Officers and Directors in the Spin-off (page 33)

In considering the recommendation of the Board of Directors to vote in favor of the spin-off proposal, you should be aware that some of IAC's directors and executive officers have interests in the spin-off that are in addition to or different from the interests of stockholders generally.

U.S. Federal Income Tax Consequences of the Spin-Off (page 39)

The spin-off is conditioned upon receipt by IAC of an opinion of counsel satisfactory to IAC's Board of Directors to the effect that the spin-off will qualify as a distribution that is generally tax free for federal income tax purposes. In addition, in connection with the filing of the registration statement of which this document is a part, IAC has received a legal opinion from Wachtell, Lipton, Rosen & Katz to the same effect and to the effect that, in general, no gain or loss will be recognized, and no amount will be includible in the income of, IAC, Expedia, or holders of IAC common stock or IAC Series A preferred stock solely as a result of the spin-off, except that gain or loss will be recognized by holders of IAC Series A preferred stock who receive cash in exchange for such shares or to the extent that holders of IAC stock receive cash in lieu of fractional shares (including in connection with the one-for-two reverse stock split of IAC common stock and IAC Class B common stock). The tax consequences to you of the spin-off will depend on the facts of your situation. In addition, you may be subject to state, local, or foreign tax laws that this document does not address. Please consult your tax advisor for a full understanding of the tax consequences to you of the spin-off.

Regulatory Requirements

IAC is not aware of any material governmental approvals or actions that are necessary for consummation of the spin-off.

Dividend Policy

IAC: IAC has not paid cash dividends on IAC common stock or IAC class B common stock and does not anticipate paying cash dividends on IAC common stock or IAC Class B common stock in the immediate future.

Expedia: Expedia does not anticipate paying cash dividends on Expedia common stock or Expedia Class B common stock in the immediate future.

Relationship Between IAC and Expedia After the Spin-Off (page 50)

Following the spin-off, IAC and Expedia will be independent, publicly owned companies. In connection with the spin-off, IAC and Expedia have entered into or will enter into the following agreements:

- a separation agreement that sets forth the arrangements between IAC and Expedia with respect to the principal corporate transactions necessary to complete the spin-off, and a number of other principles governing the relationship between IAC and Expedia following the spin-off;
- a tax sharing agreement that will govern the respective rights, responsibilities and obligations of IAC and Expedia after the spin-off with respect to tax liabilities and benefits, tax attributes, tax contests and other matters regarding income taxes, other taxes and related tax returns;
- an employee matters agreement that will govern a wide range of compensation and benefit issues, including the allocation between IAC and Expedia of responsibility for the employment and benefit obligations and liabilities of each company's current and former employees (and their dependents and beneficiaries);
- a transition services agreement that will govern the provision of transition services from IAC to Expedia; and
- various commercial agreements between subsidiaries of IAC, on the one hand, and subsidiaries of Expedia, on the other hand.

IAC/INTERACTIVECORP
SUMMARY SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following information is only a summary, and you should read it together with the more detailed financial information for IAC included elsewhere in, or incorporated by reference into, this document.

The following table presents selected historical financial data of IAC for each of the years in the five year period ended December 31, 2004 and for the three-month periods ended March 31, 2005 and 2004. This data was derived from the consolidated financial statements of IAC and reflects the operations and financial position of IAC at the dates and for the periods indicated. In addition, in March 2005, IAC, through its subsidiary HSN International, announced that it had entered into an agreement to sell its 48.6% interest in EUVÍA to the German media company, ProSiebenSat.1 Media AG. Accordingly, the results of operations and statement of position of EUVÍA have been classified as discontinued operations for all periods presented. The information in this table should be read with the financial statements and accompanying notes and other financial data pertaining to IAC included in, or incorporated by reference into, this proxy statement/prospectus.

In August 2001, IAC completed its sale of all of the capital stock of certain USA Broadcasting ("USAB") subsidiaries that own 13 full-power television stations and minority interests in four additional full-power stations to Univision Communications, Inc. ("Univision"). On May 7, 2002, IAC completed its transaction with Vivendi Universal, S.A., in which IAC's USA Entertainment Group, consisting of USA Cable, Studios USA, and USA Films, was contributed to Vivendi Universal Entertainment LLLP ("VUE"), a joint venture then controlled by Vivendi. In addition, during the second quarter of 2003, USA Electronic Commerce Solutions ("ECS"), Styleclick and Avaltus, a subsidiary of PRC, ceased operations. The financial position and results of operations of these companies, as well as USAB and the Entertainment Group, have been presented as discontinued operations in the following table.

	Year Ended December 31,					Three Months Ended March 31,	
	2000(1)	2001(2)	2002(3)(4)	2003(5)	2004(6)(7)(8)	2004(8)	2005
	(In Thousands, Except per Share Data						
Statements of Operations Data:							
Net revenues	$ 2,918,011	$ 3,434,571	$ 4,554,514	$ 6,209,828	$ 6,065,049	$ 1,443,825	$ 1,647,097
Operating (loss) income	(107,955)	(140,318)	149,322	372,278	201,034	39,108	127,638
(Loss) earnings from continuing operations before cumulative effect of accounting change	(144,767)	(162,811)	1,906	119,897	175,666	42,860	69,424
(Loss) earnings before cumulative effect of accounting change	(147,983)	392,795	2,414,492	167,396	164,861	41,527	72,212
Net (loss) earnings available to common shareholders	(147,983)	383,608	1,941,344	154,341	151,808	38,263	68,949
Basic (loss) earnings per common share from continuing operations available to common shareholders(9)(10)	(0.40)	(0.44)	(0.02)	0.18	0.23	0.06	0.09
Diluted (loss) earnings per common share from continuing operations available to common shareholders(9)(10)	(0.40)	(0.44)	(0.04)	0.16	0.22	0.05	0.09
Basic (loss) earnings per common share before cumulative effect of accounting change available to common shareholders (9)(10)	(0.41)	1.05	5.64	0.26	0.22	0.05	0.10

Diluted (loss) earnings per common share before cumulative effect of accounting change available to common shareholders(9)(10)	(0.41)	1.05	5.62	0.23	0.20	0.05	0.09
Basic (loss) earnings per common share available to common shareholders(9)(10)	(0.41)	1.03	4.55	0.26	0.22	0.05	0.10
Diluted (loss) earnings per common share available to common shareholders(9)(10)	(0.41)	1.03	4.54	0.23	0.20	0.05	0.09
Other Data:							
Net cash provided by (used in):							
Operating activities	$ 141,365	$ 369,279	$ 783,414	$ 1,273,912	$ 1,257,875	$ 616,136	$ 532,505
Investing activities	(427,955)	(521,859)	316,770	(1,769,463)	(751,642)	(40,933)	169,275
Financing activities	(9,482)	6,954	664,844	(567,640)	(258,017)	46,759	161,799
Discontinued operations	94,706	322,342	(172,832)	(85,632)	(17,527)	(8,526)	(635)
Effect of exchange rate changes	(2,687)	(3,663)	10,481	14,588	9,390	(1,211)	(11,177)

	December 31,					March 31,
	2000(1)	2001(2)	2002(3)(4)	2003(5)	2004(6)(7)(8)	2005
	(In Thousands)					
Balance Sheet Data (end of period):						
Working capital	$ 355,157	$ 1,380,936	$ 3,069,516	$ 2,336,795	$ 2,206,067	$ 2,445,105
Total assets	5,586,822	6,491,809	15,640,859	21,568,455	22,398,865	23,225,372
Long-term obligations, net of current maturities	551,766	544,372	1,203,421	1,101,939	779,453	785,522
Minority interest	960,068	791,572	1,053,592	(4,504)	39,074	84,486
Shareholders' equity	3,439,871	3,945,501	7,931,463	14,415,585	14,605,304	14,593,260

(1) Net loss available to common shareholders includes a pre-tax gain of $104.6 million related to IAC's exchange of its interest in Internet Shopping Network for 75% of Styleclick, Inc., a pre-tax gain of $3.7 million related to the Hotels.com initial public offering and a pre-tax charge of $145.6 million related to the impairment of Styleclick goodwill.

(2) Net earnings available to common shareholders includes a gain of $517.8 million, net of tax, related to the sale of capital stock of certain USA Broadcasting subsidiaries and an after-tax expense of $9.2 million related to the cumulative effect of adoption as of January 1, 2001 of SOP 00-2, "Accounting by Producers or Distributors of Films."

(3) In connection with IAC's acquisition of a controlling interest in Expedia, IAC issued approximately 13.1 million shares of Series A preferred stock at $50 face value ($656 million aggregate value), with a 1.99% annual dividend rate and which is convertible at any time into IAC common stock at an initial conversion price of $33.75. The conversion price will be adjusted downward pursuant to a specified formula if the average share price of IAC common stock over a ten-day trading period prior to conversion exceeds $35.10. Holders of Series A preferred stock may require IAC to purchase their shares on the fifth, seventh, tenth and fifteenth anniversary of the closing on February 4, 2002. IAC has the right to redeem such shares commencing on the tenth anniversary of February 4, 2002. Any payment by IAC with respect to the dividend or pursuant to any redemption requested by holders of Series A preferred stock or by IAC may be made in cash or IAC common stock, or a combination thereof, at the option of IAC.

(4) Net earnings available to common shareholders includes a gain of $2.4 billion, net of tax, related to the contribution of the USA Entertainment Group to VUE and an after-tax expense of $461.4 million related to the cumulative effect of adoption as of January 1, 2002 of Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." Also includes results of Interval International since its acquisition by IAC on September 24, 2002.

(5) Includes the results of Entertainment Publications, LendingTree and Hotwire since their acquisitions by IAC on March 25, 2003, August 8, 2003 and November 5, 2003, respectively.

(6) Includes the results of TripAdvisor, ServiceMagic and Home Loan Center since their acquisitions by IAC on April 27, 2004, September 1, 2004 and December 14, 2004, respectively.

(7) Net earnings available to common shareholders includes a pre-tax impairment charge of $184.8 million related to a write-down of Teleservices goodwill that resulted from IAC's annual impairment review under Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangibles."

(8) As part of the integration of IAC Travel's businesses, Hotels.com conformed its merchant hotel business practices with those of the other IAC Travel businesses. As a result, beginning January 1, 2004, IAC commenced prospectively reporting revenue for Hotels.com on a net basis, consistent with Expedia.com's historical practice.

(9) Earnings (loss) per common share data and shares outstanding retroactively reflect the impact of a two-for-one stock split of IAC common stock and IAC Class B common stock paid on February 24, 2000. All share numbers give effect to such stock split.

(10) The following table adjusts IAC's reported net earnings (loss) and basic and diluted net earnings (loss) per share to exclude amortization expense related to goodwill and other intangible assets with indefinite lives, as if SFAS 142 were effective January 1, 2000:

	Year Ended December 31,	
	2000	**2001**
	(In Thousands, Except Per Share Data)	
LOSS FROM CONTINUING OPERATIONS AVAILABLE TO COMMON SHAREHOLDERS		
Reported loss from continuing operations available to common shareholders	$ (144,767)	$ (162,811)
Add: goodwill amortization	63,851	134,018
Loss from continuing operations as adjusted	$ (80,916)	$ (28,793)
Basic loss per share from continuing operations available to common shareholders as adjusted:		
Reported basic loss per share	$ (0.40)	$ (0.44)
Add: goodwill amortization	0.18	0.36
Adjusted basic loss per share	$ (0.22)	$ (0.08)
Diluted loss per share from continuing operation available to common shareholders as adjusted:		
Reported diluted loss per share	$ (0.40)	$ (0.44)
Add: goodwill amortization	0.18	0.36
Adjusted diluted loss per share	$ (0.22)	$ (0.08)
NET (LOSS) EARNINGS AVAILABLE TO COMMON SHAREHOLDERS		
Net (loss) earnings available to common shareholders	$ (147,983)	$ 383,608
Add: goodwill amortization	206,151	176,413
Net earnings available to common shareholders as adjusted	$ 58,168	$ 560,021
Basic (loss) earnings per share as adjusted:		
Reported basic net (loss) earnings per share	$ (0.41)	$ 1.03
Add: goodwill amortization	0.57	0.47
Adjusted basic net earnings per share	$ 0.16	$ 1.50

	Year Ended December 31,	
Diluted (loss) earnings per share:		
Reported diluted net (loss) earnings per share	$ (0.41)	$ 1.03
Add: goodwill amortization	0.57	0.47
Adjusted diluted net earnings per share	$ 0.16	$ 1.50

14

EXPEDIA, INC.
SUMMARY SELECTED HISTORICAL COMBINED FINANCIAL INFORMATION

The following information is only a summary, and you should read it together with the more detailed financial information for Expedia included elsewhere in this document.

The following table presents summary selected historical combined financial information for Expedia for each of the years in the five year period ended December 31, 2004 and for the three-month periods ended March 31, 2005 and 2004. This data was derived, in part, from the Historical Combined Financial Statements of Expedia attached as Annex D to this proxy statement/prospectus, and reflects the operations and financial position of Expedia at the dates and for the periods indicated.

This information assumes (i) the contribution or other transfer of all of the subsidiaries and assets relating to IAC's travel and travel-related businesses (excluding Interval International and TV Travel Shop) and TripAdvisor (collectively, the "Expedia Businesses") to Expedia, (ii) the assumption by Expedia or one or more of its subsidiaries of all of the liabilities relating to the Expedia Businesses and (iii) the allocation to Expedia of certain IAC corporate expenses relating to the Expedia Businesses for certain periods, all of which will occur in connection with the spin-off and certain of which are governed by the terms of the separation agreement. See "The Spin-Off Proposal Relationship Between IAC and Expedia after the Spin-Off Separation Agreement."

Accordingly, this information reflects the historical financial position, results of operations and cash flows of the Expedia Businesses since their respective dates of acquisition by IAC, at the dates and for the periods indicated (see "The Spin-Off Proposal Information about Expedia after the Spin-Off Description of Business History"), based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the Expedia Businesses.

The information in this table should be read with the Historical Combined Financial Statements and accompanying notes included in Annex D of this proxy statement/prospectus and other financial data pertaining to Expedia included in this proxy statement/prospectus, as well as the disclosure set forth under the caption "The Spin-Off Proposal Information about Expedia after the Spin-Off Management's Discussion and Analysis of Financial Condition and Results of Operations of Expedia."

	Year Ended December 31,					Three Months Ended March 31,	
	2000(1)(6)	2001(1)(6)	2002(2)	2003(3)	2004(4)(5)	2004(5)	2005
	(In Thousands)						
Statements of Operations Data:							
Service revenue	$ 327,977	$ 536,497	$ 1,499,075	$ 2,339,813	$ 1,843,013	$ 413,262	$ 485,046
Operating income	9,166	15,811	193,770	243,518	240,473	16,677	66,325
Net income	7,729	8,901	76,713	111,407	163,473	12,719	48,029
Other Data:							
Net cash provided by (used in):							
Operating activities	$ 82,083	$ 102,961	$ 450,900	$ 644,023	$ 802,853	$ 440,393	$ 497,689
Investing activities	(124,440)	(117,327)	(402,392)	(703,181)	340,308	678,451	1,836
Financing activities	90,461	7,598	120,279	37,975	(1,163,075)	(959,905)	(345,073)
Effect of exchange rate changes			(2)	(3,232)	(13,768)	(338)	(498)

	December 31,					March 31,
	2000(1)(6)	2001(1)(6)	2002(2)	2003(3)	2004(4)(5)	2005
	(In Thousands)					
Balance Sheet Data (end of period):						
Working capital	$ 113,821	$ 140,376	$ 528,630	$ 854,838	$ 1,263,678	$ 1,433,565
Total assets	555,613	643,835	3,203,082	8,755,270	9,537,187	10,107,441
Minority interest	267,675	315,999	592,054		18,435	74,699
Invested equity	216,520	225,890	2,055,756	7,554,301	8,152,629	8,213,914

(1) Only includes the results of Hotels.com.

(2) Includes the results of Expedia.com since IAC's acquisition of a controlling interest on February 4, 2002.

(3) Includes the results of Hotwire, Inc. since IAC's acquisition on November 5, 2003.

(4) Includes the results of TripAdvisor since IAC's acquisition on April 27, 2004 and Egencia since IAC's acquisition on April 16, 2004.

(5) As part of the integration of Expedia's businesses, Hotels.com conformed its merchant hotel business practices with those of the other Expedia businesses. As a result, beginning January 1, 2004, Expedia commenced prospectively reporting revenue for Hotels.com on a net basis, consistent with Expedia.com's historical practice.

(6) The following table adjusts Expedia's reported net income to exclude amortization expense related to goodwill and other intangible assets with indefinite lives as if SFAS 142 were effective January 1, 2000:

	Year Ended December 31,	
	2000	2001
	(In Thousands)	
NET INCOME		
Reported net income	$ 7,729	$ 8,901
Add: goodwill amortization	24,249	29,228

	Year Ended December 31,	
Net income as adjusted	$ 31,978	$ 38,129

RISK FACTORS

You should carefully consider each of the following risks and uncertainties associated with IAC and the ownership of IAC securities and Expedia and the ownership of Expedia securities. In addition, for more information you should review the specific descriptions of each of IAC's and Expedia's businesses under "The Spin-Off Proposal Information about IAC after the Spin-Off" and "The Spin-Off Proposal Information about Expedia after the Spin-Off."

Risk Factors Relating to the Spin-Off

Expedia and IAC may be unable to achieve some or all of the benefits that they expect to achieve through the spin-off.

The full strategic and financial benefits expected to result from the spin-off may be delayed or may never occur at all. For instance, there can be no assurance that either IAC or Expedia will be able to attract transaction partners using their capital stock as acquisition currency and that analysts and investors will regard these new corporate structures as more clear and simple than the current corporate structure.

The synergies that IAC achieves with all of its businesses under the same corporate structure may cease to exist following the spin-off of Expedia.

Currently, IAC's non-travel businesses share economies of scope and scale in costs, human capital, vendor relationships and customer relationships with the travel businesses that Expedia will own following the spin-off. While IAC and Expedia expect to enter into agreements that will govern their commercial and other relationships after the spin-off, those arrangements are not expected to fully capture the benefits the businesses enjoy as a result of common ownership prior to the spin-off. The loss of these benefits as a consequence of the spin-off could have an adverse effect on each of IAC's and Expedia's business, results of operations and financial condition following the spin-off.

After the spin-off, Expedia may be unable to make the changes necessary to operate effectively as an independent public entity.

Following the spin-off, IAC will have no obligation to provide financial, operational or organizational assistance to Expedia, other than limited services pursuant to a transition services agreement that IAC and Expedia will enter into in connection with the spin-off. Among other things, as an independent entity, Expedia will be subject to, and responsible for, regulatory compliance, including periodic public filings with the SEC and compliance with The Nasdaq National Market's listing requirements, as well as generally applicable tax and accounting rules. Without assistance from IAC, Expedia may not be able to implement successfully the changes necessary to operate as an independent public entity.

Expedia Expects to incur increased costs relating to operating as an independent public company that could cause its cash flow and results of operations to decline.

Expedia expects that the obligations of being a public company, including substantial public reporting and investor relations obligations, will require new expenditures, place new demands on Expedia's management and may require the hiring of additional personnel. Expedia may need to implement additional systems that require new expenditures in order to adequately function as a public company. Such expenditures could adversely affect Expedia's financial condition and results of operations.

IAC and Expedia may not be able to engage in desirable strategic transactions and equity issuances following the spin-off.

IAC's and Expedia's ability to engage in significant stock transactions could be limited or restricted after the spin-off in order to preserve the tax free nature of the spin-off to IAC. Current federal income tax law creates a presumption that the spin-off would be taxable to IAC, but not to its shareholders, if either IAC or Expedia engaged in, or entered into an agreement to engage in, a transaction that would result in a 50 percent or greater change, by vote or value, in IAC's or Expedia's stock ownership during the four-year period that begins two years before the date of the spin-off, unless it is established that the transaction is not pursuant to a plan or series of transactions related to the spin-off. Treasury regulations currently in effect generally provide that whether an acquisition transaction and a spin-off are part of a plan is determined based on all of the facts and circumstances, including, but not limited to, specific factors described in the regulations. In addition, the regulations provide several "safe harbors" for acquisition transactions that are not considered to be part of a plan. These restrictions may prevent IAC and Expedia from entering into transactions which might be advantageous to their respective shareholders, such as issuing equity securities to satisfy financing needs or acquiring businesses or assets with equity securities.

Under the tax sharing agreement, there are restrictions on Expedia's ability to take actions that could cause the spin-off to fail to qualify as a tax free transaction, including redeeming equity securities and selling or otherwise disposing of a substantial portion of its assets, in each case, for a period of 25 months following the distribution. Expedia may have to indemnify IAC against the tax, if any, described in the preceding sentence if such tax is incurred by reason of a breach by Expedia of its covenants under the tax sharing agreement. For further discussion, see "The Spin-Off Proposal U.S. Federal Income Tax Consequences of the Spin-Off."

After the spin-off, actual or potential conflicts of interest may develop between the management and directors of IAC, on the one hand, and the management and directors of Expedia, on the other hand.

After the spin-off, the management and directors of IAC and Expedia may own both IAC capital stock and Expedia capital stock. This ownership overlap could create, or appear to create, potential conflicts of interest when IAC's and Expedia's directors and executive officers face decisions that could have different implications for IAC and Expedia. For example, potential conflicts of interest could arise in connection with the resolution of any dispute between IAC and Expedia regarding terms of the agreements governing the spin-off and the relationship between IAC and Expedia thereafter, including the separation agreement, the employee matters agreement, the tax sharing agreement, the transition services agreement or any commercial agreements between the parties or their affiliates. Potential conflicts of interest could also arise if IAC and Expedia enter into any commercial arrangements in the future.

In addition, Mr. Diller will serve as Chairman of the Board of Directors of Expedia and its senior executive, while retaining his role as Chairman and Chief Executive Officer of IAC, and Mr. Kaufman will serve as Vice Chairman of Expedia while retaining his role as Vice Chairman of IAC. The fact that Messrs. Diller and Kaufman hold positions with both IAC and Expedia could create, or appear to create, potential conflicts of interest for each of Messrs. Diller and Kaufman when he faces decisions that may affect both IAC and Expedia. Each of Messrs. Diller and Kaufman may also face conflicts of interest with regard to the allocation of his time between IAC and Expedia.

IAC is asking you to approve the corporate opportunity proposal. The corporate opportunity proposal contemplates an amendment to the IAC certificate of incorporation that would provide that no officer or director of IAC who is also an officer or director of Expedia will be liable to IAC or its stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to Expedia instead of IAC, or does not communicate information regarding a corporate opportunity to IAC because the officer or director has directed the corporate opportunity to Expedia. Expedia will have a reciprocal provision in its certificate of incorporation. The corporate opportunity provisions may have the effect of exacerbating the risk of conflicts of interest between IAC and Expedia because the provisions effectively shield an overlapping director/executive officer from liability for breach of fiduciary duty in the event that such director or officer chooses to direct a corporate opportunity to Expedia instead of to IAC or vice versa.

Risk Factors Relating to IAC and Expedia Securities

The aggregate value of the IAC and Expedia securities that current holders of IAC capital stock receive in the spin-off might be less than the value of the IAC securities before the spin-off.

If IAC completes the spin-off as currently contemplated, holders of IAC capital stock prior to the spin-off will hold a combination IAC capital stock and Expedia capital stock following the spin-off. Any number of matters, including the risks described herein, may adversely impact the value of IAC and Expedia securities after the completion of the spin-off. Some of these matters may or may not have been identified by IAC or Expedia prior to the completion of the spin-off, and, in any event, may not be within IAC's or Expedia's control. Should any adverse circumstances, facts, changes or effects come to pass, the aggregate value of the IAC and Expedia securities could be less than the value of IAC securities before the spin-off.

The market price and trading volume of IAC and/or Expedia securities may be volatile and may face negative pressure.

The travel and travel-related businesses that Expedia will own after the spin-off represent a significant portion of IAC's businesses and assets prior to the spin-off and have a significant impact on IAC's financial condition and results of operations. Investors that own IAC securities because of its travel businesses may decide to dispose of some or all of their IAC securities after the spin-off.

IAC currently owns the travel and travel-related businesses that Expedia will operate following the spin-off. Accordingly, there is currently no trading market for Expedia's securities. Investors may decide to dispose of some or all of the Expedia securities that they receive in the spin-off. The Expedia securities issued in the spin-off will be trading publicly for the first time. Until, and possibly even after, orderly trading markets develop for these securities, there may be significant fluctuations in price.

IAC cannot accurately predict how investors in IAC and/or Expedia securities will behave after the spin-off. The market price for IAC and/or Expedia securities following the spin-off may be more volatile than the market price of IAC securities before the spin-off. In addition, there can be no assurance that any trading market for either IAC or Expedia preferred stock, if any, will develop. The market price of IAC and Expedia securities could fluctuate significantly for many reasons, including the risks identified in this proxy statement/prospectus or reasons unrelated to each company's performance. These factors may result in short- or long-term negative pressure on the value of IAC and Expedia securities.

After the spin-off, financial institutions may remove IAC securities from investment indices and Expedia securities may not qualify for those investment indices. In addition, IAC securities and/or Expedia securities may fail to meet the investment guidelines of institutional investors. In either case, these factors may negatively impact the price of IAC securities and/or Expedia securities and may impair IAC's and/or Expedia's ability to raise capital through the sale of securities.

Some of the holders of IAC securities are index funds tied to The NASDAQ or other stock or investment indices, or are institutional investors bound by various investment guidelines. Companies are generally selected for investment indices, and in some cases selected by institutional investors, based on factors such as market capitalization, industry, trading liquidity and financial condition. The spin-off will reduce IAC's market capitalization. Similarly, as an independent company, Expedia will initially have a lower market capitalization than IAC has today. As a result, one or more investment indices may remove IAC securities from their indices and Expedia securities may not qualify for those investment indices. In addition, IAC and/or Expedia securities that are received in the spin-off may not meet the investment guidelines of some institutional investors. Consequently, these index funds and institutional investors may have to sell some or all of the securities they receive in the spin-off, and the prices of IAC and/or Expedia securities may fall as a result. Any such decline could impair the ability of IAC or Expedia to raise capital through future sales of securities.

Risk Factors Relating to IAC's and Expedia's Businesses Following the Spin-Off

After the spin-off, both IAC and Expedia will own and operate interactive commerce businesses and are, therefore, subject to many of the same or similar business risks that this proxy statement/prospectus describes below. You should carefully consider these risks with the understanding that any particular risk factor may affect one or both of the companies. In addition, each company may have unique risk factors associated with its business. You should carefully consider these risks as well. For more information regarding each company's business see "The Spin-Off Proposal Information about IAC after the Spin-Off" and "The Spin-Off Proposal Information about Expedia after the Spin-Off."

Following the spin-off, each of IAC and Expedia will depend on its respective key personnel.

Following the spin-off, the future success of each of IAC and Expedia will depend upon the continued contributions of its respective senior corporate management, particularly Barry Diller, the Chairman and Chief Executive Officer of IAC and the Chairman and senior executive of Expedia. Mr. Diller does not have an employment agreement with either IAC or Expedia. He will own options to purchase a substantial number of shares of both IAC common stock and Expedia common stock. However, a substantial majority of such options expire between August 2005 and November 2007. If Mr. Diller no longer serves in his current role at either company, IAC's business on the one hand, and Expedia's business on the other hand, as well as the market price of both companies' securities, could experience substantial adverse consequences. If Mr. Diller serves in either company in some lesser capacity than his current role, the business and market price of the securities of that company could experience adverse consequences. Neither IAC nor Expedia can assure you that it will be able to retain the services of Mr. Diller or any other member of its senior management or key employees following the spin-off.

Mr. Diller currently controls IAC and is expected to control Expedia. If Mr. Diller ceases to control IAC and/or Expedia, Liberty Media Corporation may effectively control the company that Mr. Diller ceases to control.

Following the spin-off, subject to the terms of stockholders agreements relating separately to each of IAC and Expedia, Mr. Diller will effectively control the outcome of all matters submitted to a vote or for the consent of each company's stockholders (other than with respect to the election by the holders of each company's common stock of 25% of the members of each company's Board of Directors and matters as to which Delaware law requires a separate class vote). Upon Mr. Diller's permanent departure from IAC or Expedia, as the case may be, Liberty may effectively control the voting power of the capital stock of the company from which Mr. Diller departs through its ownership of common shares of each of IAC and Expedia.

Pursuant to the stockholders agreements referred to above, until the time of Mr. Diller's departure from IAC or Expedia, as the case may be, Mr. Diller will generally have the right to vote all of the shares of IAC and Expedia common stock and IAC and Expedia Class B common stock held by Liberty and each of the BDTV Entities. Mr. Diller owns all of the voting stock, and Liberty owns all of the non-voting stock, in each case, of the BDTV Entities, which non-voting stock represents in excess of 99% of the equity of the BDTV Entities.

As of June 8, 2005, after giving effect to IAC's acquisition from Universal of 43,181,308 shares of IAC common stock and 13,430,000 shares of IAC Class B common stock in connection with IAC's sale of its common and preferred interests in Vivendi Universal Entertainment to NBC Universal (see "Recent Developments Sale of IAC's Common and Preferred Interests in Vivendi Universal Entertainment"): Mr. Diller owned 1,793,214 shares of IAC common stock, and 368,741 shares of IAC common stock were held by a private foundation controlled by Mr. Diller; these shares collectively represent approximately 0.2% of the combined voting power of the outstanding IAC capital stock. Liberty owned 87,239,578 shares of IAC common stock and 2,353,188 shares of IAC Class B common stock, collectively representing approximately 10.3% of the combined voting power of the outstanding

IAC capital stock. The BDTV Entities collectively owned 44 shares of IAC common stock and 48,846,808 shares of IAC Class B common stock, collectively representing approximately 45.3% of the combined voting power of the outstanding IAC capital stock. As a result, Mr. Diller, through shares he owns as well as those subject to proxy, generally controlled the vote of 16.6% of IAC common stock and 100% of the IAC Class B common stock and, consequently, 55.8% of the combined voting power of the outstanding IAC capital stock. In the event IAC completes the acquisition of Ask Jeeves, after giving effect to the issuance of additional shares of IAC common stock in connection with the acquisition, Mr. Diller will control approximately 52.2% of the combined voting power of IAC capital stock. The capital structure and ownership of Expedia immediately following the spin-off will mirror the capital structure and ownership of IAC; as a result, Mr. Diller will have similar voting control of Expedia.

In addition, under IAC's amended and restated governance agreement and under a governance agreement to be entered into by Expedia at the time of the spin-off, each of Mr. Diller and Liberty generally has the right to consent to limited matters in the event that IAC's or Expedia's, as the case may be, ratio of total debt to EBITDA, as defined in the applicable governance agreement, equals or exceeds 4:1 over a continuous 12-month period. Neither IAC nor Expedia can assure you that Mr. Diller and Liberty will consent to any such matter at a time when IAC or Expedia, as the case may be, is highly leveraged, in which case IAC or Expedia, as the case may be, would not be able to engage in such transactions or take such actions.

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

Following the spin-off, the success of each of IAC and Expedia will depend on maintaining the integrity of their respective systems and infrastructure. System interruption and the lack of integration and redundancy in each of IAC's and Expedia's information systems may affect their respective businesses.

A fundamental requirement for online commerce and communications is the secure transmission of confidential information, such as credit card numbers or other personal information, over public networks. Following the spin-off, each of IAC's and Expedia's security measures may be inadequate and, if any compromise of security were to occur, it could have a detrimental effect on each company's reputation and adversely affect its ability to attract customers. At times, IAC's and Expedia's businesses may experience occasional system interruptions that make some or all systems unavailable or prevent these businesses from efficiently fulfilling orders or providing services to third parties. Following the spin-off, each of IAC and Expedia will rely on its affiliates' and third party computer systems and service providers to facilitate and process a portion of its transactions. Any interruptions, outages or delays in each company's systems or third party providers' systems, or a deterioration in their performance, could impair each company's ability to process transactions for its customers and the quality of service that each company can offer to those customers. Fire, flood, power loss, telecommunications failure, break-ins, earthquakes, acts of war or terrorism, acts of God, computer viruses, physical or electronic break-ins and similar events or disruptions may damage or interrupt computer or communications systems at any time. Any of these events could cause system interruption, delays and loss of critical data, and could prevent IAC and/or Expedia from providing services to third parties. While each company will have backup systems for certain aspects of operations, the systems are not fully redundant and disaster recovery planning may not be sufficient for all eventualities. In addition, each of IAC and Expedia may have inadequate insurance coverage or insurance limits to compensate for losses from a major interruption. If any of these adverse events were to occur, it could damage the reputation of either or both companies and be costly to remedy.

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

Both IAC's and Expedia's future growth may depend, in part, on acquisitions. To the extent that either company grows through acquisitions, it will face the operational and financial risks that commonly accompany that strategy. Each company would also face operational risks, such as failing to assimilate the operations and personnel of the acquired businesses, disrupting its ongoing businesses, impairing management resources and its relationships with employees and customers of acquired businesses as a result of changes in ownership and management. Some acquisitions may not be successful and their performances may result in the impairment of their carrying value.

Changing laws, rules and regulations, and legal uncertainties may adversely impact the business, financial condition and results of operations of IAC and Expedia.

Unfavorable changes in existing, or the promulgation of new, laws, rules and regulations applicable to IAC, Expedia and their respective businesses, including those relating to the Internet and online commerce, consumer protection and privacy and sales, use, occupancy, value-added and other taxes, could decrease demand for products and services, increase costs and/or subject IAC and Expedia to additional liabilities, which could adversely impact their respective business. For example, there is, and will likely continue to be, an increasing number of laws and regulations pertaining to the Internet and online commerce, which may relate to liability for information retrieved from or transmitted over the Internet, user privacy, taxation and the quality of products and services. Furthermore, the growth and development of online commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on online businesses generally.

In addition, the application of various domestic and international sales, use, occupancy, value-added and other tax laws, rules and regulations to the historical and new products and services of IAC and Expedia is subject to interpretation by the applicable taxing authorities. While IAC and Expedia believe that they are compliant with these tax provisions, there can be no assurances that taxing authorities will not take a contrary position, or that such positions will not have an adverse effect on the businesses, financial condition and results of operations of IAC and Expedia. See "The Spin-Off Proposal Information about Expedia After the Spin-Off Management's Discussion and Analysis of Financial Condition and Results of Operations of Expedia Critical Accounting Policies and Estimates."

IAC's financial results may be subject to increased variability after the spin-off.

After the spin-off, IAC will operate in different industries with distinct market dynamics and economics as compared to IAC prior to the spin-off. The businesses that IAC will operate following the spin-off are sensitive to general economic conditions, consumer confidence, consumer retail spending, interest rates, adverse publicity, competition and trends in technology. The diversification that results from operating IAC's travel businesses alongside IAC's other businesses tends to moderate financial and operational volatility. Following the spin-off, that diversification will diminish, and IAC may experience increased volatility and less diversification in terms of cash flow, seasonality, working capital and financing requirements.

Expedia's financial results may be subject to increased variability after the spin-off.

After the spin-off, Expedia will operate in different industries with distinct market dynamics and economics as compared to IAC prior to the spin-off. The businesses that Expedia will operate following the spin-off are sensitive to general economic conditions, the health of the worldwide travel industry, consumer confidence, consumer retail spending, trends in technology, competition, levels of personal discretionary income, weather, acts of war or terrorism, safety concerns and acts of God. These businesses are also subject to the effects of seasonality to a greater degree than the businesses that IAC will operate following the spin-off with revenues typically lowest in the first quarter of the year and highest in the third quarter. The diversification that results from operating Expedia's businesses alongside IAC's other businesses tends to moderate financial and operational volatility. Following the spin-off, that diversification will effectively cease to exist at Expedia.

Expedia depends on its relationships with travel suppliers and any adverse changes in these relationships could adversely affect Expedia's business, financial condition and results of operations.

An important component of the success of Expedia's business depends on its ability to maintain its existing, as well as build new, relationships with travel suppliers and GDS distribution partners. Adverse changes in existing relationships, or Expedia's inability to enter into new arrangements with these parties on favorable terms, if at all, could reduce the amount, quality and breadth of attractively priced travel products and services that Expedia is able to offer through its brands and businesses, which could adversely affect its business, financial condition and results of operations.

Travel suppliers are increasingly seeking to lower their travel distribution costs by promoting direct online bookings through their own websites. In some cases, supplier direct channels offer advantages to consumers, such as loyalty programs or lower transaction fees. In addition, travel suppliers may choose not to make their travel products and services available through Expedia distribution channels due to travel industry trends. For example, in the case of its merchant hotel business, Expedia experienced a compressed lodging supply environment in 2004 due to higher overall occupancy rates as compared to prior periods. Expedia expects that these trends will continue. To the extent that consumers increase the percentage of their travel purchases through supplier direct websites and/or if travel suppliers choose not to make their products and services available to Expedia due to travel industry trends, Expedia's business may suffer.

Over the last several years, travel suppliers have generally reduced or eliminated commissions and payments to travel agents and other travel intermediaries; these reductions could adversely affect Expedia's business, financial condition and results of operations.

A portion of Expedia's agency revenues will be derived from compensation paid by travel suppliers and global distribution system (GDS) partners for bookings made through Expedia websites. The businesses that Expedia will own after the spin-off generally negotiate these commissions and fees with their travel suppliers and GDS partners. Over the last several years, travel suppliers have generally reduced or eliminated commissions and payments to travel agents and other travel intermediaries. No assurances can be given that GDS partners or travel suppliers will not reduce current industry compensation or Expedia's compensation, either of which could reduce Expedia's agency revenues and margins and adversely affect its business, financial condition and results of operations.

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

The long-term success of Expedia will depend on its continued ability to increase the overall number of customer transactions in a cost-effective manner. In order to increase the number of customer transactions, Expedia must attract new visitors to its websites and other distribution channels, convert these visitors into paying customers and capture repeat business from existing customers. Similarly, Expedia's corporate travel business is dependent on enlisting new corporate customers and attracting their travel booking activity online to Expedia Corporate Travel. The businesses that Expedia will own after the spin-off attract customers to their websites in a cost-effective manner through affiliate programs. If the number of customers being driven to Expedia's websites through affiliates participating in these programs were to decrease significantly, costs relating to Expedia's sales and marketing commitments could increase. In addition, Expedia believes that rates for desirable advertising and marketing placements are likely to increase in the foreseeable future. No assurances can be provided that Expedia will be successful in acquiring new customers in a cost-effective manner.

Expedia's international opportunities and investments involve risks relating to travel patterns and practices and Internet-based commerce.

After the spin-off Expedia will operate in a number of jurisdictions abroad and intends to continue to expand its international presence. In order to achieve widespread acceptance in the countries and markets it enters, Expedia must continue to successfully tailor its services to the unique customs and cultures of such countries and markets. Learning the customs and cultures of various countries, particularly with respect to travel patterns and practices, can be difficult and costly and Expedia's failure to do so could slow its international growth.

In addition, the businesses that Expedia will own after the spin-off face, and Expedia expects to continue to face, additional risks in the case of its existing and future international operations. These risks include unexpected changes in regulatory requirements, increased risk and limits on its ability to enforce intellectual property rights, exchange rate fluctuations, potential delays in the development of the Internet as an advertising and commerce medium in international markets and difficulties in managing operations due to distance, language and cultural differences, including issues associated with establishing management systems and infrastructures and staffing and managing foreign operations.

Declines or disruptions in the travel industry, such as those caused by terrorism, war, bankruptcies or general economic downturns, could adversely affect Expedia's business, financial condition and results of operations.

After the spin-off Expedia's business, financial condition and results of operations will be affected by the health of the worldwide travel industry. Travel expenditures are sensitive to business and personal discretionary spending levels and tend to decline during general economic downturns. Accordingly, after the spin-off, Expedia's business will be sensitive to downturns or weaknesses in the travel industry, which could adversely affect the growth of its business. Additionally, Expedia's business will be sensitive to safety concerns, and thus may decline after incidents of terrorism, during periods of geopolitical conflict in which travelers become concerned about safety issues or when travel might involve health-related risks, one or more of which could result in a protracted decrease in demand for its travel services. This decrease in demand, depending on its scope and duration, together with any future issues impacting travel safety, could significantly and adversely impact Expedia's business, financial condition and results of operations over the short and long-term. In addition, the disruption of the existing travel plans of a significant number of customers upon the occurrence of certain events, such as terrorist activity or war, could result in the incurrence of significant additional costs if Expedia provides relief to affected customers by not charging cancellation fees or by refunding the price of otherwise non-refundable unused tickets.

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

An important component of the success of IAC's various businesses depends on their ability to maintain their existing, as well as build new, relationships with third party distribution channels, suppliers and advertisers, among other parties.

Electronic Retailing

Electronic Retailing is dependent upon the pay television operators with whom HSN U.S. enters into distribution and affiliation agreements to carry the HSN and America's Store television networks. See "The Spin-Off Proposal Information about IAC after the Spin-Off Electronic Retailing HSN U.S. Pay Television Distribution." While the cessation of carriage of the HSN and/or America's Store television networks by a major pay television operator or a significant number of smaller pay television operators could have a significant adverse effect on the business, financial condition and results of operations of Electronic Retailing and IAC, IAC believes that it will be able to continue to successfully manage the distribution process in the future.

Ticketing

Ticketing is dependent upon its clients for ticketing supply. Securing tickets depends, in part, on the ability of Ticketing to enter into and maintain client contracts on favorable terms. No assurances can be provided that Ticketing will continue to be able to enter into or maintain client contracts on acceptable terms, if at all, and its inability to do so could have a material adverse effect on its business, financial condition and results of operations. In addition, some facilities, promoters and other potential clients are increasingly electing to distribute tickets through supplier direct or other new channels. The increased and continued use of supplier direct and/or new distribution channels by clients could have a material adverse effect on the business, financial condition and results of operations of Ticketing. See "The Spin-Off Proposal Information about IAC after the Spin-Off Ticketing."

Interval International

Interval is dependent upon timeshare developers for new members and timeshare supply. Interval's inability to maintain existing or negotiate new arrangements with these developers could result in decreases in Interval's membership base, timeshare supply and related exchange transactions, which could have a material adverse effect on the business, financial condition and results of operations of Interval. See "The Spin-Off Proposal Information about IAC after the Spin-Off Interval International."

Ask Jeeves

Assuming that IAC completes the Ask Jeeves acquisition, which remains subject to certain closing conditions, Ask Jeeves will be an important business of IAC following the spin-off. A material portion of the revenues of Ask Jeeves is derived from advertising and search toolbar distribution arrangements. Accordingly, the inability of Ask Jeeves to retain existing, or attract new, advertisers and/or distribution partners could have a material adverse effect on its business, financial condition and results of operations. See "The Spin-Off Proposal Information about IAC after the Spin-Off Ask Jeeves."

Financial Services and Real Estate

In the case of Financial Services and Real Estate, the ability of LendingTree to provide financial and real estate services depends, in significant part, on the quality and pricing of services provided by participating lenders and real estate professionals. The failure of a significant number of participating lenders and real estate professionals to participate on LendingTree exchanges for any reason and/or provide quality services on competitive terms, could have a material adverse effect on the business, financial condition and results of operations of Financial Services and Real Estate. See "The Spin-Off Proposal Information about IAC after the Spin-Off Financial Services and Real Estate."

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

IAC's businesses in general are sensitive to trends or events that are outside of IAC's control. For example, adverse trends or events, such as general economic downturns, decreases in consumer spending and natural or other disasters, among other adverse events and trends, could significantly impact IAC's business, results of operations and financial condition.

Electronic Retailing

Electronic Retailing is dependent upon the continued ability of HSN U.S. to transmit the HSN and America's Store television networks to broadcast and pay television operators from its satellite uplink facilities. See "The Spin-Off Proposal Information about IAC after the Spin-Off Electronic Retailing HSN U.S. Reach." While HSN U.S. has designed business continuity and disaster recovery plans to ensure its continued satellite transmission capability on a temporary basis in the event of a natural or other disaster, the prolonged or permanent interruption of its satellite transmission capability for any reason and/or related costs incurred by HSN U.S. could have a material adverse effect on the business, financial condition and results of operations of Electronic Retailing and/or IAC.

Ticketing

Ticketing is sensitive to fluctuations in the number of entertainment, sporting and leisure events and activities offered by promoters and facilities, as well as general economic and business conditions in these industries. Accordingly, adverse trends in the entertainment, sporting and leisure events and activities could have a material adverse effect on the business, financial condition and results of operations of Ticketing.

Personals

In the case of Personals, adverse publicity resulting from and relating to the introduction of bills that, if passed into law, would require online dating services to either perform criminal background checks on their subscribers or prominently disclose that they do not perform such background checks, could harm the reputation and credibility of the personals industry and service providers within the industry. This development could discourage consumers from using online personals services and could have a material adverse effect on the business, financial condition and results of operations of Personals. See "The Spin-Off Proposal Information about IAC after the Spin-Off Personals Regulation."

Interval International

Interval's business depends, in significant part, upon the health of the timeshare and travel industries. Travel expenditures are sensitive to business and personal discretionary spending levels and tend to decline during general economic downturns. Accordingly, Interval's business is sensitive to downturns or weaknesses in the travel industry, which could adversely affect its business, financial condition and results of operations.

Ask Jeeves

Assuming that IAC completes the Ask Jeeves acquisition, which remains subject to certain closing conditions, Ask Jeeves will be an important business of IAC following the spin-off. A material portion of the revenues of Ask Jeeves is derived from advertising arrangements. Accordingly, Ask Jeeves is sensitive to general economic downturns and decreases in consumer spending, among other events and trends, which generally result in decreased advertising expenditures, as well as the continued growth and/or acceptance of online advertising as an effective alternative to offline advertising media and its business model. See "The Spin-Off Proposal Information about IAC after the Spin-Off Ask Jeeves."

Financial Services and Real Estate

The results of Financial Services and Real Estate are impacted by fluctuations in interest rates, as well as the number of homes listed for sale (which is impacted by construction rates and related costs), both of which impact demand for financial and real estate services. While the broad mix of financial and real estate products and services offered by the businesses within Financial Services and Real Estate partially mitigates the impact of these fluctuations, such fluctuations could have a material adverse effect on the business, financial condition and results of operations of Financial Service and Real Estate. See "The Spin-Off Proposal Information about IAC after the Spin-Off Financial Services and Real Estate."

RECENT DEVELOPMENTS

Sale of IAC's Common and Preferred Interests in Vivendi Universal Entertainment

On June 7, 2005, IAC sold its common and preferred interests in Vivendi Universal Entertainment ("VUE"), a joint venture that owns certain entertainment assets, to NBC Universal for approximately $3.4 billion in aggregate consideration, consisting of approximately $1.9 billion in cash, 56.6 million IAC common shares formerly held by NBC Universal and $115 million of television advertising time that NBC Universal will provide through its television media outlets over a three-year period commencing October 1, 2005. In connection with the sale, IAC, NBC Universal and Vivendi Universal have released one another from potential claims relating to IAC's investment in VUE, and IAC and Vivendi Universal have agreed to permanently dismiss tax litigation previously pending in the Delaware courts. The transaction, which the parties simultaneously signed and closed, represents a complete exit by IAC from the VUE joint venture. For more information regarding IAC's investment in VUE, See "Certain IAC Relationships and Related Party Transactions 2002 VUE Transaction."

Cornerstone Acquisition

On April 1, 2005, IAC announced that it had completed the acquisition of Cornerstone Brands, Inc., a portfolio of print catalogs and online retailing sites that sell home products and leisure and casual apparel, for approximately $704.0 million in cash. IAC currently operates Cornerstone as part of its Electronic Retailing segment and expects to continue to do so following the spin-off.

Ask Jeeves Acquisition

On March 21, 2005, IAC announced that it had entered into a merger agreement to acquire Ask Jeeves, Inc. Under the terms of the merger agreement, IAC will issue 1.2668 shares of IAC common stock (on a pre-reverse stock split basis) for each share of Ask Jeeves common stock in a tax free transaction. Subject to the receipt of the requisite regulatory approvals and the satisfaction of customary closing conditions, IAC expects to complete the Ask Jeeves acquisition during the summer of 2005. Under the terms of the merger agreement, IAC has agreed not to complete the spin-off so long as the Ask Jeeves transaction is pending. Ask Jeeves stockholder approval is required to effect the Ask Jeeves transaction. Ask Jeeves has scheduled its special meeting of stockholders for Tuesday, July 19, 2005. Assuming the successful completion of the Ask Jeeves transaction, following the spin-off, IAC's businesses will include Ask Jeeves.

Stock Repurchases

On March 28, 2005, IAC announced that it would commence purchasing shares of its common stock pursuant to a 10b5-1 purchase plan (the "10b5-1 Plan") designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. Prior to the implementation of the 10b5-1 Plan, IAC was authorized to purchase up to 102.9 million shares of its common stock pursuant to the two previously announced share repurchase authorizations by its Board of Directors in November 2003 and November 2004. The table below sets forth details regarding the purchases that IAC made pursuant to the the 10b5-1 Plan. IAC terminated the 10b5-1 Plan on May 5, 2005. The information set forth below does not give effect to the one-for-two reverse stock split that IAC expects to complete immediately prior to the spin-off.

Period	Total Number of Shares	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
3/28/05	0	N/A	0	102,865,908
3/29/05 3/31/05	4,800,000	$ 21.87	4,800,000	98,065,908
4/01/05 4/30/05	40,800,000	$ 22.20	40,800,000	57,265,908
5/01/05 5/31/05	7,200,000	$ 22.47	7,200,000	50,065,908
Total	52,800,000	$ 22.21	52,800,000	50,065,908

THE SPIN-OFF PROPOSAL

IAC has proposed to spin off Expedia so that Expedia will become an independent, separately traded public company. After the transaction, Expedia will consist of IAC's travel and travel-related businesses, subsidiaries and investments (other than Interval International and TV Travel Shop, which IAC will retain) and TripAdvisor. IAC will continue to own and operate its remaining businesses as an independent, separately traded public company.

IAC will effect the spin-off through amendments to its certificate of incorporation that will:

- Reclassify each share of IAC $0.01 par value common stock into one share of IAC $0.001 par value common stock and 1/100 of a share of IAC Series 1 Mandatory Exchangeable Preferred Stock that will automatically exchange into one share of Expedia $0.001 par value common stock immediately following the reclassification; and

- Reclassify each share of IAC $0.01 par value Class B common stock into one share of IAC $0.001 par value Class B common stock and 1/100 of a share of IAC Series 2 Mandatory Exchangeable Preferred Stock that will automatically exchange into one share of Expedia $0.001 par value Class B common stock immediately following the reclassification.

The full text of the proposed amendments to the IAC certificate of incorporation is set forth in Annex A to this proxy statement/prospectus.

Even if IAC receives all required stockholder approvals with respect to the spin-off proposal, IAC's Board of Directors may decide not to proceed with the spin-off if it determines that such a course is not in the interest of IAC or its stockholders. In that case, the proposed amendments to the IAC certificate of incorporation relating to the spin-off will not become effective.

If IAC's stockholders approve the proposed amendments to the IAC certificate of incorporation relating to the spin-off and IAC completes the spin-off, the holders of IAC common shares immediately prior to the spin-off will initially own all of the IAC common shares and Expedia common shares immediately following the spin-off.

Background and Reasons for the Spin-Off

This discussion of the information and factors that the IAC Board of Directors considered in making its decision is not intended to be exhaustive but includes all material factors considered by the IAC Board of Directors. In view of the wide variety of factors considered in connection with the evaluation of the spin-off and the complexity of these matters, the IAC Board of Directors did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, the individual members of the IAC Board of Directors may have given different weight to different factors.

The IAC Board of Directors has reviewed IAC's organizational structure to consider the strategic, operational and financial requirements of a large company operating in several businesses. In light of that review, the Board believes that the spin-off would provide many benefits to IAC and its stockholders.

Post Spin-Off, Expedia's Equity Currency Will Enable Growth Through Travel Acquisitions

The travel distribution business has grown and matured since IAC entered the space, bringing new opportunities and challenges. Currently, the fact that IAC does not have a pure-play travel currency may hinder IAC's ability to complete additional travel acquisitions, as potential transaction partners may be more interested in receiving like-kind equity consideration. A pure-play travel currency will give Expedia the agility to more effectively maneuver in this environment.

Post Spin-Off, Travel Operations Will No Longer Dominate IAC's Businesses

As a result of IAC's success in travel and its present dominance within IAC's portfolio of businesses, investors frequently view IAC primarily as a travel company. This perception hinders IAC's ability to grow through acquisitions, in part because potential non-travel transaction partners interested in an equity-based consideration generally do not want to accept what they view as a travel stock. If IAC were to make additional travel acquisitions those acquisitions would amplify this imbalance, further inhibiting growth outside of travel. Following the spin-off, IAC will be a diversified interactive commerce company with a mix of established and embryonic non-travel businesses. IAC will thus be positioned not only to grow its existing businesses, but to identify and pursue young or underappreciated interactive companies with strong growth potential.

Improved Alignment of Management Performance with Each Company's Performance

By separating Expedia and IAC, the spin-off enables each company's management team to have a greater impact on its own company's results. The improved alignment of management and company performance will better serve both employee and stockholder interests by more closely tying management's actions to each company's stock performance.

The Spin-Off Will Provide Capital Markets and Investors with Greater Transparency into Each Company

IAC's travel businesses have experienced tremendous growth since IAC acquired them; these businesses represent over 60% of IAC's operating income and outsize each of IAC's other businesses. IAC currently expects that following the spin-off IAC will be a balanced and diversified interactive commerce and search company, and Expedia will be a pure-play travel company with significant scale and a leading market position. The separation of Expedia from IAC will enable investors and capital markets to more accurately assess the performance and strategies of IAC's remaining businesses and Expedia's business.

Tax Considerations

The IAC Board of Directors took into account its expectation that the spin-off generally will not be taxable for U.S. federal income tax purposes to IAC or Expedia, or to holders of IAC common stock, IAC Class B common stock or IAC Series A preferred stock, except to holders of IAC Series A preferred stock who receive cash in exchange for their securities or other security holders who receive cash in lieu of fractional shares (including in connection with the one-for-two reverse stock split of IAC common stock and IAC Class B common stock that IAC expects to complete immediately prior to the spin-off). Furthermore, the IAC Board of Directors was aware and considered that both IAC's and Expedia's ability to engage in significant issuances of equity securities could be limited or restricted after the spin-off to preserve the tax free nature of the spin-off to IAC. For further discussion, see "U.S. Federal Income Tax Consequences of the Spin-Off."

Risk Factors

The IAC Board of Directors considered other potential risks and consequences to Expedia and to IAC associated with the spin-off, including those described in "Risk Factors Risk Factors Relating to the Spin-Off," but believed that the considerations described above outweighed those risks.

Special Committee

The IAC Board of Directors took into account the conclusions and recommendation of the IAC Special Committee with respect to aspects of the proposed spin-off that could involve potential conflicts of interest. See " Recommendation of Special Committee of IAC's Board of Directors."

Recommendation of Special Committee of IAC's Board of Directors

The IAC Board of Directors established a Special Committee of independent directors to review any aspects of the proposed spin-off that could involve potential conflicts of interest (including the proposed terms of Expedia's capitalization, ownership and control and governance arrangements with Barry Diller and Liberty Media Corporation) and to make a recommendation to the IAC Board of Directors with respect to these matters. The Special Committee, consisting of Messrs. Edgar Bronfman, Jr. and Alan Spoon, engaged independent counsel Fried Frank Harris Shriver & Jacobson LLP to advise it. The ultimate judgment to proceed with the spin-off was the decision of the full Board of Directors, and the Special Committee was not asked to, and did not, make any independent recommendation as to the underlying business decision to proceed with the transaction. The Special Committee and its counsel convened on numerous occasions to discuss the spin-off proposal and also had discussions with Mr. Diller and IAC's special counsel, Wachtell, Lipton, Rosen & Katz.

In connection with its review, the Special Committee examined the existing relationships between IAC and its controlling stockholders and considered whether Expedia should replicate those arrangements as an independent public company. The existing arrangements at IAC examined by the Special Committee included:

- Control by Mr. Diller of the outcome of all matters submitted to a vote or for the consent of IAC's stockholders (other than with respect to the election by the holders of IAC common stock of 25% of the members of IAC's Board of Directors and matters as to which Delaware law requires a separate class vote of the holders of IAC common stock or IAC preferred stock);

- The requirement that each of Mr. Diller and Liberty consent to certain significant corporate matters in the event that IAC's ratio of total debt to EBITDA (earnings before interest, taxes, depreciation and amortization) equals or exceeds 4:1 over a continuous 12-month period; and

- Liberty obtaining effective voting control (based on Liberty's current ownership of IAC capital stock) upon Mr. Diller's permanent departure from IAC and the resulting elimination of the proxy on Liberty's shares of IAC common stock and IAC Class B common stock.

As part of the Special Committee's review of the proposed structure for Expedia, the Special Committee considered a range of governance alternatives for Expedia following the spin-off and also considered whether, in connection with any modification to the proposed Expedia structure, similar modifications should be proposed to be made to IAC's existing governance arrangements. The range of alternatives included the following:

- Preserving the status quo at IAC and duplicating this governance structure at Expedia;

- Seeking to provide Expedia with a traditional public company governance structure; and

- Formulating a new governance structure that would incorporate some of the IAC governance and stockholder arrangements with the traditional public company governance structure.

After extensive review of these governance alternatives, the Special Committee preliminarily concluded that it could support generally the first alternative identified above but proposed certain additional governance modifications principally affecting Liberty's rights, including the imposition of restrictions on Liberty upon Mr. Diller ceasing to control either company.

The Special Committee also recommended that, independent of any governance changes, the spin-off transaction should be conditioned upon approval by holders of a majority of the outstanding shares of IAC common stock, other than shares owned or controlled by IAC management.

In the course of discussions regarding these alternatives, Mr. Diller indicated to the Special Committee that, in his view, any imposition of limitations on Liberty's rights as a stockholder to which Liberty is not currently subject would be contrary to current arrangements with Liberty and the historical relationship among IAC, Liberty and Mr. Diller. Accordingly, Mr. Diller advised the Special Committee that, as to those alternatives considered by the Special Committee that would require a

30

stockholder vote to implement, as a matter of fairness Mr. Diller could not support those measures in his capacity as a stockholder. The Special Committee also recognized that certain revisions to the governance arrangements currently in effect could only be implemented with Liberty's consent and the Special Committee was advised by Mr. Diller and special counsel to IAC that Liberty was unlikely to consent to those revisions. Mr. Diller further indicated that he was opposed to conditioning the spin-off upon approval by holders of a majority of the outstanding shares of IAC common stock, other than shares owned or controlled by IAC management, because he had been advised by special counsel to IAC that under Delaware law the holders of IAC common stock would have a separate class vote (which he did not control) in any event and that the Special Committee was independently reviewing aspects of the proposed transaction that could involve potential conflicts.

Further discussions ensued between the Special Committee and its counsel and IAC management and special counsel to IAC regarding the alternatives and the request by the Special Committee that the spin-off be conditioned upon approval by holders of a majority of the outstanding shares of IAC common stock, other than shares owned or controlled by IAC management. In the course of these discussions, it was agreed that the Special Committee's proposal would be modified so that the transaction would be conditioned upon approval by holders of a majority of the shares of IAC common stock, other than shares owned or controlled by IAC management, actually voting on the spin-off proposal (rather than a majority of the outstanding shares held by such stockholders).

Following these discussions, the Special Committee concluded that, subject to the affirmative vote of holders of a majority of the shares of IAC common stock, other than shares owned or controlled by IAC management, actually voting on the spin-off proposal, it would support a spin-off transaction that effectively duplicated the existing IAC governance arrangements at Expedia. The Special Committee's determination reflects a balancing of the benefits and detriments of the various governance alternatives, and a recognition of the following factors:

- The proposed structure for Expedia reflects the status quo at IAC and all of the material terms of the structure would be described in this proxy statement/prospectus;

- IAC's filings with the SEC and other public statements historically have included disclosure regarding IAC's governance and stockholder arrangements, and IAC stockholders and other investors have accepted those arrangements as part of their investment decision;

- Liberty invested in IAC based in large measure on the governance arrangements that IAC currently maintains; and

- Approval of the spin-off proposal requires the affirmative vote of holders of a majority of the shares of IAC common stock, other than shares owned or controlled by IAC management, actually voting on the spin-off proposal. Based upon information publicly available as of September 30, 2004 (the most recent practicable date at the time the Special Committee conducted its review and discussions with management), five financial institutions held approximately 37.5% of the shares of IAC common stock and twelve institutions held a majority of the shares of IAC common stock.

Based upon the foregoing and all of the factors described under "Background and Reasons for the Spin-Off," the Special Committee determined to recommend to the Board of Directors that it proceed with the spin-off of Expedia in the form proposed, subject to the approval of the spin-off proposal by a majority of the votes cast by the holders of shares of IAC common stock actually voting on the spin-off proposal, other than shares owned or controlled by IAC management (which include the shares owned or controlled by Liberty and Universal, over which Mr. Diller holds proxies as of the record date).

Recommendation of IAC's Board of Directors

Based upon the factors described under "Background and Reasons for the Spin-Off" and, with respect to aspects of the proposed spin-off that could involve potential conflicts of interest, the recommendation of the Special Committee, IAC's Board of Directors has determined that the adoption of the spin-off proposal and the spin-off (including the amendments to IAC's certificate of incorporation that will effectuate the spin-off) are in the best interests of IAC and its stockholders and, accordingly, recommends that holders of IAC common stock, IAC Class B common stock and IAC Series A preferred stock vote **FOR** the spin-off proposal.

Review of Financial Advisors

Each of Allen & Company LLC, J.P. Morgan Securities Inc. and Duff & Phelps, LLC acted as financial advisors to IAC in connection with the spin-off. Each of Allen & Company, J.P. Morgan and Duff & Phelps were retained in connection with the transaction because of each firm's familiarity with IAC's and Expedia's businesses and assets and each firm's qualifications and reputation. In connection with the transaction, IAC's financial advisors will receive fees to be negotiated, consistent with IAC's prior practices, for services rendered.

Solvency Opinion

In connection with the spin-off, Duff & Phelps has provided the Board of Directors of IAC with a solvency opinion regarding IAC, and IAC expects that Duff & Phelps will confirm its opinion immediately prior to the completion of the spin-off. The full text of Duff & Phelps' solvency opinion, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Duff & Phelps in connection with the opinion, is attached to this document as Annex I. You should read this opinion carefully and in its entirety. Duff & Phelps provided its opinion for the information and assistance of IAC's Board of Directors in connection with its consideration of the spin-off. Duff & Phelps' opinion is not a recommendation as to how any IAC stockholder should vote with respect to the spin-off or any other matter.

As background for its analysis, Duff & Phelps met with key members of IAC management to discuss, in detail, the history, current operations, and future outlook for IAC. The scope of Duff & Phelps' financial analysis is based on available historical financial statements and operating data for IAC provided by its management and its advisors or otherwise publicly available sources of information. Duff & Phelps reviewed transaction documentation relating to the spin-off, including this proxy statement/prospectus. Duff & Phelps reviewed industry and comparative public company financial data, to the extent available, obtained from published or other available sources. Duff & Phelps agreed to use generally accepted valuation and analytical techniques as the basis for its analysis and solvency opinion.

With regards to the rendering of its solvency opinion, IAC asked Duff & Phelps to determine whether, as of the date of, and after giving effect to, the spin-off:

- the fair value and present fair salable value of the aggregate assets of IAC will exceed the total stated value of IAC's liabilities, as well as contingent liabilities identified to Duff & Phelps by IAC;

- IAC will not have an unreasonably small amount of capital for the operation of the businesses in which it is engaged, as IAC management has indicated such businesses are now conducted and as IAC management has indicated such businesses are proposed to be conducted following consummation of the spin-off;

- IAC will be able to pay its stated liabilities, as well as any identified contingent liabilities, as they mature; and

- the fair value and present fair salable value of the aggregate assets of IAC will exceed its stated liabilities, as well as identified contingent liabilities, by an amount greater than the aggregate par value of its issued capital stock.

For the purposes of the solvency opinion, the term "fair salable value" means the aggregate amount (without deduction for costs of sale or taxes, if any) of money that could be expected to be realized, as of the valuation date, from an interested purchaser aware of all relevant information by a seller, equally informed, who is interested in disposing of the entire operation as a going concern, presuming the business will continue in its present form and character, within an approximate one-year time frame. In addition, the term "identified contingent liabilities" means those contingent liabilities identified to Duff & Phelps by officers of IAC.

After concluding on a reasonable range of fair values for IAC, Duff & Phelps deducted the stated value of IAC's liabilities, including all contingent liabilities identified to Duff & Phelps by IAC. Duff & Phelps refers to this measurement as the "balance sheet test," and utilized the balance sheet test to confirm that IAC's assets exceed its liabilities, including all contingent liabilities. As part of this analysis, Duff & Phelps analyzed the "equity cushion" or the amount by which the assets exceed the liabilities following the spin-off, to determine whether IAC will be left with a reasonable amount of capital for the operation of the businesses in which it is engaged. Duff & Phelps determined whether the indicated "equity cushion" exceeds the aggregate par value of IAC's issued capital stock. Duff & Phelps refers to this measurement as the "Delaware dividend test."

Finally, Duff & Phelps performed a "cash flow test" which focuses on whether or not IAC's continuing cash flow is sufficient to meet its debts as they mature. The cash flow test involves developing detailed cash flow projections for IAC that include the payment of debt obligations, including identified contingent liabilities, as they mature. The cash flow test includes a sensitivity analysis to ascertain IAC's ability to meet its debt obligations in reasonable down-side scenarios. Furthermore, the cash flow test includes the testing of major debt covenants to determine if under reasonable downside scenarios IAC could be in default with its lenders. The cash flow test addresses: (1) whether IAC, through the liquidation of its assets or other means, will be able to pay its stated liabilities, including identified contingent liabilities as they mature; and (2) whether IAC's projected cash flows are such that it will have sufficient funds available over time to pay its reasonably foreseeable liabilities, including contingent liabilities.

Interests of Certain Persons in the Spin-Off

In considering the recommendation of IAC's Board of Directors to vote in favor of the spin-off, stockholders of IAC should be aware that directors and executive officers of IAC have interests in the spin-off that may be in addition to or different from the interests of stockholders generally. The IAC Board of Directors was aware of these interests and considered them, among other factors, in approving the spin-off.

Equity Ownership

Certain of IAC's directors and executive officers currently own shares of IAC common stock and/or options to purchase shares of IAC common stock. In the spin-off, these directors and executive officers will receive reclassified shares of IAC common stock, shares of Expedia common stock, adjusted options to purchase shares of IAC common stock and options to purchase shares of Expedia common stock in respect of the IAC securities that they currently own. See " Treatment of Outstanding IAC Compensatory Equity-Based Awards."

Arrangements Among Messrs. Diller and Kaufman with IAC and Expedia

Mr. Diller will remain Chief Executive Officer and Chairman of the Board at IAC and will become Chairman of the Board and senior executive of Expedia. Mr. Kaufman will remain Vice Chairman and a director at IAC and will become Vice Chairman and a director of Expedia. It is expected that following the spin-off, Mr. Diller's current IAC salary will be reduced by 50% and Expedia will pay him a salary equal to 50% of his current IAC salary. In addition, IAC will be reimbursed by Expedia annually for a portion of the expenses relating to Mr. Diller's support staff and certain benefits currently received by Mr. Diller from IAC and reflected in the Other Annual Compensation column of the summary compensation table set forth under "IAC Executive Compensation Summary Compensation Table." As to Mr. Kaufman, it is currently contemplated that his current IAC salary will remain unchanged and that Expedia will pay him no salary, but that Mr. Kaufman will be eligible to receive bonuses and equity from Expedia.

Certain Other Relationships

Mr. Keough, a member of the Board of Directors of IAC, currently serves as Chairman (in a non-executive capacity) of Allen & Company LLC. Allen & Company has served as financial advisor in connection with the proposed spin-off of Expedia.

After the spin-off, a subsidiary of IAC and Expedia will enter into a time sharing agreement pursuant to which Expedia will be able to use the aircraft jointly owned by a subsidiary of IAC and an affiliate of Mr. Diller. See "Relationship Between IAC and Expedia after the Spin-Off Commercial Arrangements Aircraft Time Sharing Agreement."

Governance Arrangements at IAC and Expedia

Governance Agreements with Liberty and Mr. Diller

IAC, Liberty Media Corporation and Mr. Diller intend to enter into a new amended and restated governance agreement which we refer to in this proxy statement/prospectus as the "IAC Governance Agreement" that will take effect upon completion of the spin-off and will replace the governance agreement dated December 16, 2001.

Expedia, Liberty and Mr. Diller intend to enter into a governance agreement, which we refer to in this proxy statement/prospectus as the "Expedia Governance Agreement," that will become effective upon completion of the spin-off.

The description below sets forth the material terms of the IAC Governance Agreement and the Expedia Governance Agreement. Because these two agreements are identical in all material respects, the following description applies to each of IAC and Expedia (in each case, the "applicable company") other than in instances in which the description specifically identifies IAC or Expedia. The following description does not purport to cover all the provisions of the IAC Governance Agreement and the Expedia Governance Agreement, and is qualified in its entirety by reference to the applicable agreements, which IAC and Expedia will file with the SEC when IAC and Expedia enter into these agreements. Share information set forth below gives effect to the one-for-two reverse stock split that IAC expects to complete immediately prior to the spin-off.

Representation of Liberty on the IAC and Expedia Boards of Directors

Under the terms of the applicable governance agreement:

- Liberty has the right to nominate up to two directors of the applicable company so long as Liberty beneficially owns at least 33,651,963 equity securities of the applicable company (so long as Liberty's ownership percentage is at least equal to 15% of the total equity securities of the applicable company);

- Liberty has the right to nominate one director of the applicable company so long as Liberty beneficially owns at least 22,434,642 equity securities of the applicable company (so long as Liberty owns at least 5% of the total equity securities of the applicable company); and

- The applicable company will use its reasonable best efforts to cause one of Liberty's designees to be a member of a committee of the board of directors of the applicable company and, to the extent the person designated by Liberty would qualify as a member of the compensation committee of the board of directors of the applicable company under applicable tax and securities laws and regulations, the applicable company will seek to have that person appointed to the compensation committee of the applicable company.

Pursuant to the terms of the applicable governance agreement, the applicable company will cause each director that Liberty nominates to be included in the slate of nominees recommended by the Board of Directors of the applicable company to the stockholders of the applicable company for election as directors at each annual meeting of the stockholders of the applicable company and will use all reasonable efforts to cause the election of each such director including soliciting proxies in favor of the election of such persons. Liberty has the right to designate a replacement director to the board of the applicable company in order to fill any vacancy of a director previously designated by Liberty.

Contingent Matters

The applicable governance agreement lists certain actions that require the prior consent of Liberty and Mr. Diller before the applicable company can take any such action. This proxy statement/prospectus refers to these actions as "Contingent Matters."

For so long as:

- in the case of Liberty, Liberty owns at least 29,912,856 equity securities and at least 5% of the total equity securities of the applicable company (the "Liberty Condition"); and
- in the case of Mr. Diller, he owns at least 5,000,000 common shares (including options to purchase common shares of the applicable company, whether or not then exercisable), continues to serve in his senior executive capacity at the applicable company and has not become disabled (the "Diller Condition," and together with the Liberty Condition, the "Consent Conditions"),

the applicable company has agreed that, without the prior approval of Liberty and/or Mr. Diller, as applicable, it will not engage in any transaction that would result in Liberty or Mr. Diller having to divest any part of their interests in the applicable company or any other material assets, or that would render any such ownership illegal or would subject Mr. Diller or Liberty to any fines, penalties or material additional restrictions or limitations.

In addition, for so long as the Consent Conditions apply, if the applicable company's "total debt ratio" (as defined in the applicable governance agreement) equals or exceeds 4:1 over a twelve-month period, the applicable company may not take any of the following actions without the prior approval of Liberty and/or Mr. Diller:

- acquire or dispose of any assets, issue any debt or equity securities, repurchase any debt or equity securities, or incur indebtedness, if the aggregate value of such transaction or transactions (alone or in combination) during any six month period equals 10% or more of the applicable company's market capitalization;
- voluntarily commence any liquidation, dissolution or winding up of the applicable company or any material subsidiary of the applicable company;
- make any material amendments to the certificate of incorporation or bylaws of the applicable company;
- in the case of IAC, engage in any line of business other than media, communications and entertainment products, services and programming, and electronic retailing, or other businesses engaged in by IAC as of the date of determination;
- in the case of Expedia, engage in any line of business other than online and offline travel services and products and related businesses, or other business engaged in by Expedia as of the date of determination;
- adopt any stockholder rights plan that would adversely affect Liberty or Mr. Diller, as applicable; or
- grant additional consent rights to a stockholder of the applicable company.

Preemptive Rights

In the event that the applicable company issues or proposes to issue any shares of common stock or Class B common stock (with certain limited exceptions) including shares issued upon exercise, conversion or exchange of options, warrants and convertible securities, Liberty will have preemptive rights that entitle it to purchase a number of common shares of the applicable company so that Liberty will maintain the identical ownership interest in the applicable company that Liberty had immediately prior to such issuance or proposed issuance (but not in excess of 20.01%). Any purchase by Liberty will be allocated between common stock and Class B common stock in the same proportion as the issuance or issuances giving rise to the preemptive right, except to the extent that Liberty opts to acquire shares of common stock in lieu of shares of Class B common stock.

Registration Rights

Liberty and Mr. Diller are entitled to customary, transferable registration rights with respect to shares of common stock of the applicable company owned by them. Liberty is entitled to four demand registration rights and Mr. Diller is entitled to three demand registration rights. The applicable company will pay the costs associated with such registrations (other than underwriting discounts, fees and commissions). The applicable company will not be required to register shares of its common stock if a stockholder could sell the shares in the quantities proposed to be sold at such time in one transaction under Rule 144 of the Securities Act or under another comparable exemption from registration.

Termination

Generally, the applicable governance agreement will terminate:

- with respect to Liberty, at such time that Liberty beneficially owns equity securities representing less than 5% of the total equity securities of the applicable company; and

- with respect to Mr. Diller, at the later of (1) the date Mr. Diller ceases to be the senior executive of the applicable company or becomes disabled and (2) the date Mr. Diller no longer holds a proxy to vote the shares of Liberty (as described below).

With respect to the provisions governing "Contingent Matters," such provisions will terminate as to Mr. Diller and Liberty as set forth under " Contingent Matters."

Stockholders Agreements

General

Liberty and Mr. Diller have informed IAC that they intend to enter into a new amended and restated stockholders agreement, which we refer to in this proxy statement/prospectus as the "IAC Stockholders Agreement," that will take effect upon completion of the spin-off and will replace the stockholders agreement dated December 16, 2001.

Liberty and Mr. Diller have informed Expedia that they intend to enter into a stockholders agreement, which we refer to in this proxy statement/prospectus as the "Expedia Stockholders Agreement," that will become effective upon completion of the spin-off. The Expedia Stockholders Agreement will mirror the provisions of the existing IAC Stockholders Agreement in most material respects.

The description below sets forth the material terms of the IAC Stockholders Agreement and the Expedia Stockholders Agreement. Because these two agreements are identical in all material respects, the following description applies to each of IAC and Expedia (in each case, the "applicable company") other than in instances in which the description specifically identifies IAC or Expedia. The following description does not purport to cover all the provisions of the IAC Stockholders Agreement and the

Expedia Stockholders Agreement, and is qualified in its entirety by reference to those agreements, which IAC and Expedia will file with the SEC when IAC and Expedia enter into these agreements.

Share information set forth below gives effect to the one-for-two reverse stock split that IAC expects to complete immediately prior to the spin-off.

Corporate Governance

Effective upon completion of the spin-off, Mr. Diller will hold an irrevocable proxy with respect to all securities of the applicable company beneficially owned by Liberty on all matters submitted to a stockholder vote or by which the stockholders may act by written consent, except for Contingent Matters with respect to which Liberty has not consented, so long as Mr. Diller continues to own at least 5,000,000 common shares (including options) of the applicable company. The proxy will generally remain in effect until the earlier of (1) Mr. Diller no longer serving in his senior executive capacity at the applicable company and (2) Mr. Diller becoming disabled. Under certain limited circumstances, including a breach by Mr. Diller of certain provisions of the applicable agreement, the proxy may terminate sooner.

Liberty and Mr. Diller will vote against any Contingent Matter with respect to the applicable company if Mr. Diller and Liberty do not approve the Contingent Matter (and continue to have veto rights with respect to the Contingent Matter under the applicable governance agreement). Mr. Diller will also vote all securities of the applicable company over which he has voting control in favor of the Liberty designees to the board of directors of the applicable company.

Restrictions on Transfers

Until the later of (1) the date Mr. Diller no longer serves in his senior executive capacity at the applicable company and (2) the date Mr. Diller no longer holds the proxy to vote Liberty's shares of the applicable company described above (or upon Mr. Diller becoming disabled, if that occurs first), and subject to the other provisions of the applicable stockholders agreement, neither Liberty nor Mr. Diller can transfer shares of common stock or Class B common stock of the applicable company, other than:

- transfers by Mr. Diller to pay taxes relating to the granting, vesting and/or exercise of stock options to purchase shares of common stock of the applicable company;
- transfers to each party's respective affiliates;
- pledges relating to financings, subject to certain conditions; and
- transfers of options or common shares of the applicable company in connection with "cashless exercises" of Mr. Diller's options to purchase shares of common stock of the applicable company.

The restrictions on transfer are subject to a number of exceptions (which exceptions are generally subject to the rights of first refusal described below):

- either of Liberty or Mr. Diller may transfer common shares of the applicable company to an unaffiliated third party, subject to tag-along rights described below;
- either of Liberty or Mr. Diller may transfer common shares of the applicable company so long as, in the case of Mr. Diller, he continues to beneficially own at least 2,200,000 common shares (including stock options) of the applicable company and, in the case of Liberty, Liberty continues to beneficially own 2,000,000 common shares of the applicable company, and in the case of a transfer of an interest in, or of any of the 24,423,426 common shares of the applicable company held by, specified entities referred to as the "BDTV Limited Entities," after such

transfer, Liberty and Mr. Diller collectively control at least 50.1% of the total voting power of the applicable company; and

either of Liberty or Mr. Diller may transfer common shares of the applicable company so long as the transfer complies with the requirements of Rule 144 or Rule 145 under the Securities Act, and, in the case of a transfer of an interest in, or of any of the 24,423,426 common shares of the applicable company held by, the BDTV Limited Entities, after such transfer, Liberty and Mr. Diller collectively control at least 50.1% of the total voting power of the applicable company.

Tag-Along Rights and Rights of First Refusal

Each of Mr. Diller and Liberty will be entitled to a right to "tag-along" (*i.e.*, participate on a pro rata basis) on sales by the other of common shares of the applicable company to any third party. Liberty will not have a tag-along right in the event of:

sales by Mr. Diller of up to 2,000,000 common shares of the applicable company within any rolling twelve-month period;

transfers by Mr. Diller to pay taxes relating to the granting, vesting and/or exercise of stock options to purchase shares of common stock of the applicable company or transfers in connection with "cashless exercises" of Mr. Diller's options to purchase shares of common stock of the applicable company;

specified "brokers' transactions," as defined under the Securities Act, which we refer to as "market sales;" or

generally, when Mr. Diller no longer serves in his senior executive capacity at the applicable company.

Neither Mr. Diller nor Liberty will have a tag-along right with respect to hedging transactions or open market sales, in both cases, involving shares of common stock of the applicable company, subject to certain requirements.

Each of Mr. Diller and Liberty has a right of first refusal in the case of a proposed transfer by the other of shares of Class B common stock of the applicable company to a third party.

Transfers of Shares of IAC and Expedia Class B Common Stock

If either Liberty or Mr. Diller proposes to transfer shares of Class B common stock of the applicable company, the other will be entitled to swap any shares of common stock of the applicable company it or he owns for such shares of Class B common stock of the applicable company (subject to the rights of first refusal described above). To the extent there remain shares of Class B common stock of the applicable company that the selling stockholder would otherwise transfer to a third party, such shares must first be converted into shares of common stock of the applicable company. This restriction does not apply to, among other specified transfers, transfers among the parties and their affiliates.

Termination

Mr. Diller's and Liberty's rights and obligations under the applicable stockholders agreement generally terminate at such time as, in the case of Mr. Diller, he no longer beneficially owns at least 2,200,000 common shares (including stock options) of the applicable company and, in the case of Liberty, Liberty no longer beneficially owns at least 2,000,000 common shares of the applicable company. Liberty's tag-along rights and obligations terminate at such time as Liberty ceases to beneficially own at least 5% of the total equity securities of the applicable company.

In addition, Mr. Diller's rights under the applicable stockholders agreement will terminate upon the later of (1) the date Mr. Diller ceases to serve in his senior executive capacity at the applicable company or becomes disabled and (2) the date Mr. Diller no longer holds a proxy to vote the shares of the applicable company owned by Liberty.

No Dissenters' Rights

Under the Delaware General Corporation Law, holders of shares of IAC common stock, IAC Class B common stock and IAC Series A preferred stock will not have dissenters' rights in connection with the spin-off proposal or the spin-off.

Accounting Treatment

The spin-off will be accounted for by IAC as a discontinuance of the businesses that will constitute Expedia after the spin-off. The measurement date for discontinued operations for accounting purposes will be on the date of the spin-off. After the spin-off, the assets and liabilities of Expedia will be accounted for at the historical values carried by IAC prior to the spin-off. Total costs relating to the spin-off are estimated at $15.0 million, which will be borne 80% by IAC and 20% by Expedia. IAC and Expedia have incurred approximately $4.9 million and $1,000,000 respectively of these costs through March 31, 2005.

Regulatory Requirements

IAC is not aware of any material governmental approvals or actions that are necessary for consummation of the spin-off.

Federal Securities Law Consequences

The following IAC securities have been registered under the Securities Act of 1933, as amended:

- IAC common stock;
- IAC Series B preferred stock; and
- warrants to purchase shares of IAC common stock (as adjusted in connection with the spin-off and the one-for-two reverse stock split) that currently trade on The Nasdaq Stock Market under the ticker symbols "IACIW" and "IACIZ," as well as warrants to purchase shares of IAC common stock issued in the 2002 VUE transaction.

The following Expedia securities have been registered under the Securities Act of 1933, as amended:

- Expedia common stock;
- Expedia Series A preferred stock; and
- warrants to purchase shares of Expedia common stock whose predecessor securities currently trade on The Nasdaq National Market under the ticker symbols "IACIW" and "IACIZ," as well as warrants to purchase shares of Expedia common stock issued pursuant to adjustments to the warrants to purchase shares of IAC common stock issued in the 2002 VUE transaction.

Upon issuance, these IAC and Expedia securities may be traded freely and without restriction, except that the securities received by persons who are deemed to be "affiliates" (as such term is defined under the Securities Act of 1933) of IAC or Expedia, as applicable, may resell their securities only in transactions permitted by the resale provisions of Rule 145 under the Securities Act of 1933 (or Rule 144, in the case of such persons who become affiliates of IAC or Expedia, as applicable) or as otherwise permitted under the Securities Act of 1933. Persons who may be deemed to be affiliates of IAC or Expedia, as applicable, are generally defined as individuals or entities that control, are controlled by, or are under common control with, IAC or Expedia, as applicable, and may include certain executive officers and directors of IAC and/or Expedia, as applicable.

U.S. Federal Income Tax Consequences of the Spin-Off

The following discussion describes the material federal income tax consequences of the spin-off. This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury Regulations promulgated thereunder, judicial opinions, published positions of the Internal Revenue Service, and all other applicable authorities as of the date of this proxy statement/prospectus, all of which are subject to change, possibly with retroactive effect.

The following discussion is limited to holders of IAC common stock and IAC Series A preferred stock that are characterized as United States persons for federal income tax purposes and may not describe all of the tax consequences that may be relevant to a holder in light of his or her particular circumstances or to holders subject to special rules. In addition, this summary is limited to holders that hold their IAC common stock and IAC Series A preferred stock as a capital asset within the meaning of Section 1221 of the Code. Accordingly, each stockholder should consult his or her tax advisor as to the particular consequences of the spin-off to such stockholder, including the application of state, local and foreign tax laws, and as to possible changes in tax laws that may affect the tax consequences that we describe in this proxy statement/prospectus. This summary may not be applicable to stockholders who received their IAC common stock or IAC Series A preferred stock pursuant to the exercise of employee stock options, under an employee stock purchase plan or otherwise as compensation. In addition, this summary does not address the tax consequences to any person who actually or constructively owns 5% or more of the shares of any class of IAC stock.

It is a condition to the spin-off that IAC receive an opinion of counsel satisfactory to IAC's Board of Directors to the effect that, on the basis of certain facts, representations and assumptions set forth or referred to in the opinion, the spin-off will qualify as a distribution that is generally tax free under Sections 355 and 368(a)(1)(D) of the Code. In addition, in connection with the filing of the registration statement of which this document is a part, IAC has received a legal opinion from Wachtell, Lipton, Rosen & Katz to the effect that the spin-off will qualify as a reorganization under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code. This opinion is based on representations made by IAC and on factual assumptions set forth or referred to in the opinion. Accordingly, the following material federal income tax consequences will apply:

Principal Federal Income Tax Consequences to IAC

No gain or loss will be recognized by, and no amount will be includible in the income of, IAC as a result of the spin-off, other than with respect to any distribution received by IAC or "excess loss account" or "intercompany transaction" required to be taken into account under Treasury regulations relating to consolidated returns.

Principal Federal Income Tax Consequences to Stockholders of IAC

For federal income tax purposes the receipt of the Series 1 Mandatory Exchangeable Preferred Stock that IAC issues pursuant to the reclassification generally will be ignored. The reclassification of IAC common stock and the immediate exchange of shares of Series 1 Mandatory Exchangeable Preferred Stock for shares of Expedia common stock will be treated as a recapitalization of IAC common stock and a distribution by IAC of the Expedia common stock to the holders of IAC common stock.

The treatment of IAC Series A preferred stock in the spin-off will depend upon the election that a holder makes in connection with the spin-off. Holders who elect to have IAC redeem their shares for cash generally will be treated as if they exchanged their shares in a taxable transaction. Holders of IAC Series A preferred stock who elect to receive the IAC common stock and Expedia common stock that the holder would have received if the holder converted its shares of IAC Series A preferred stock into shares of IAC common stock immediately prior to the spin-off will be treated as if they converted their Series A preferred stock into IAC common stock and then participated in both the recapitalization into new IAC common stock and the spin-off of Expedia common stock described in the immediately preceding paragraph. Holders of IAC Series A preferred stock who elect to receive preferred stock of each of IAC and Expedia will be treated as if their IAC Series A preferred stock were recapitalized in part for the IAC Series B preferred stock and the remainder exchanged in a deemed split-off transaction for Expedia Series A preferred stock.

Holders of IAC Common Stock

The principal federal income tax consequences of the spin-off to the holders of IAC common stock will be as follows:

- no gain or loss will be recognized by, and no amount will be includible in the income of, a holder of IAC common stock solely as a result of the receipt of IAC common stock in exchange therefor in the recapitalization;

- no gain or loss will be recognized by, and no amount will be includible in the income of, a holder of IAC common stock solely as a result of the receipt of Expedia common stock in the spin-off;

- the holding period for the IAC common stock received in the recapitalization and the Expedia common stock received in the spin-off will include the period during which the IAC common stock with respect to which such securities were received was held; and

- the tax basis of IAC common stock held by an IAC stockholder immediately prior to the distribution will be apportioned, based upon relative fair market values at the time of the distribution, between the IAC common stock and the Expedia common stock received in the spin-off.

Holders of IAC Series A Preferred Stock

The principal federal income tax consequences to a holder of IAC Series A preferred stock will depend upon the election that a holder makes in connection with the spin-off. A holder of IAC Series A preferred stock may elect to receive (1) $50.00 in cash per share, plus accrued and unpaid dividends, (2) the IAC common stock and Expedia common stock that a holder of IAC Series A preferred stock would have received had the holder converted its IAC Series A preferred stock into IAC common stock immediately prior to the reclassification or (3) one share of IAC Series B preferred stock and one share of Expedia Series A preferred stock, each of which will mirror in all material respects the terms of the current IAC Series A preferred stock, as adjusted to reflect the spin-off and the one-for-two reverse stock split.

Election to Receive Cash

To the extent a holder of IAC Series A preferred stock elects to receive $50.00 in cash per share, plus accrued and unpaid dividends, immediately after the reclassification, the holder's stock will be treated as having been redeemed by IAC for federal income tax purposes. Accordingly, the holder would, as a general rule, be treated as having made a "sale or exchange" of the holder's stock under Section 302 of the Code, and the holder, except as provided below, will recognize capital gain or loss equal to the difference between the cash proceeds received and the holder's tax basis in the stock being redeemed. Such gain or loss will be long-term capital gain or loss if at the time of the redemption the holder's holding period with respect to the stock redeemed is more than one year. However, if the holder continues to own an interest in IAC after the redemption, including by reason of the constructive ownership rules set forth in Section 318 of the Code, the holder may not qualify for "sale or exchange" treatment and the amount received may be treated as having the effect of the distribution of a dividend under the tests set forth in Section 302 of the Code, in which case such gain may be treated as dividend income. Holders of IAC Series A preferred stock that elect to receive cash are encouraged to consult their own tax advisors regarding the federal income tax consequences of their election, including the application (if any) of the constructive ownership rules to their personal situation.

Election to Receive the Securities the Holder Would Have Received Had the Holder Converted the IAC Series A Preferred Stock into IAC Common Stock Immediately Prior to the Reclassification

To the extent a holder of IAC Series A preferred stock elects to receive what the holder would have received had the holder converted its shares of IAC Series A preferred stock into IAC common stock immediately prior to the reclassification, the holder will be deemed to have exchanged its shares of IAC Series A preferred stock into IAC common stock in a tax free transaction immediately prior to the reclassification. In the event that there is a reduction in the conversion price, pursuant to the terms of the Series A preferred stock, it is possible that such reduction to the conversion price would be characterized as a deemed distribution taxable to the converting shareholder at the time of conversion, in an amount equal to the fair market value of the additional shares of IAC common stock received (and the amount of any cash received in lieu of additional fractional shares of IAC common stock) as a result of the reduction in the conversion price. If the reduction to the conversion price is treated as a deemed distribution, a converting shareholder will have dividend income to the extent of IAC's current or accumulated earnings and profits. Any excess will be treated as a non-taxable return of capital to the extent of the shareholder's basis in the IAC Series A preferred stock, and thereafter as capital gain. Following the conversion, the holder will be treated in the same manner as a holder of IAC common stock. The principal federal income tax consequences to a holder of IAC common stock are described above under " Holders of IAC Common Stock."

Election to Receive IAC Series B Preferred Stock and Expedia Series A Preferred Stock

To the extent a holder of IAC Series A preferred stock elects to receive newly issued IAC Series B preferred stock and Expedia Series A preferred stock immediately after the reclassification:

- no gain or loss will be recognized by, and no amount will be includible in the income of, a holder of IAC Series A preferred stock solely as a result of the receipt of new IAC Series B preferred stock in exchange therefor in the recapitalization;

- no gain or loss will be recognized by, and no amount will be includible in the income of, a holder of IAC Series A preferred stock as a result of the receipt of Expedia Series A preferred stock in the deemed split-off exchange;

- the tax basis of IAC Series A preferred stock held by an IAC stockholder immediately prior to the distribution will be apportioned, based upon relative fair market values at the time of the distribution, between the IAC Series B preferred stock received in the recapitalization and the Expedia Series A preferred stock received in the deemed split-off exchange; and

- the holding period for the IAC Series B preferred stock received in the recapitalization and the Expedia Series A preferred stock received in the split-off will include the period during which the Series A preferred stock with respect to which such securities were received was held.

Principal Federal Income Tax Consequences to IAC and Stockholders of IAC if the Spin-Off Were Taxable

An opinion of counsel represents counsel's best legal judgment and is not binding on the Internal Revenue Service or any court. If the Internal Revenue Service subsequently determined the spin-off to be taxable, the above consequences would not apply and both IAC and holders of IAC common stock or IAC Series A preferred stock could be subject to tax. Additionally, future events that may or may not be within the control of IAC or Expedia, including extraordinary purchases of IAC common stock or Expedia common stock, could cause the spin-off not to qualify as tax free to IAC and/or holders of IAC common stock or IAC Series A preferred stock. For example, if one or more persons were to acquire a 50 percent or greater interest in Expedia stock or in the stock of IAC as part of a plan or a series of related transactions of which the spin-off is a part, the spin-off would be taxable to IAC, although not necessarily to you. Depending on the event, Expedia may have to indemnify IAC for some or all of the taxes and losses resulting from the spin-off not qualifying as tax free under Sections 355 and/or 368(a)(1)(D) of the Code. See "Relationship Between IAC and Expedia after the Spin-Off Tax Sharing Agreement." If the spin-off were taxable, then:

- each holder of IAC common stock or IAC Series A preferred stock who receives shares of Expedia common stock in the spin-off would be treated as if the stockholder received a taxable distribution equal to the fair market value of the shares of Expedia common stock received, taxed as a dividend to the extent of the stockholder's pro rata share of IAC's current and accumulated earnings and profits (including earnings and profits arising from the gain to IAC described in the second following bullet point) and then treated as a non-taxable return of capital to the extent of the holder's basis in the IAC common stock and thereafter as capital gain from the sale or exchange of IAC common stock;

each holder of IAC Series A preferred stock who receives shares of Expedia Series A preferred stock in the spin-off would be treated as if the stockholder received a taxable redemption payment equal to the fair market value of the shares of Expedia Series A preferred stock received, taxed as described above with respect to the redemption of IAC Series A preferred stock for cash; and

the consolidated group of which IAC is the common parent would recognize a gain equal to the excess of the fair market value of Expedia's securities on the date of the spin-off over IAC's tax basis therein.

Under current law, individual citizens or residents of the United States are subject to U.S. federal income tax on dividends at a maximum rate of 15 percent (assuming holding period and other requirements are met) and long-term capital gains (*i.e.*, capital gains on assets held for more than one year) at a maximum rate of 15 percent.

Cash in Lieu of Fractional Shares

To the extent that the one-for-two reverse stock split of IAC common stock and IAC Class B common stock results in fractional shares, holders of IAC common stock and IAC Class B common stock will receive cash in lieu of such fractional shares in an amount as determined by the IAC Board of Directors. A stockholder who receives cash instead of a fractional share of IAC common stock in connection with the one-for-two reverse stock split generally will recognize capital gain or loss measured by the difference between the cash received for such fractional share and the stockholder's tax basis in the fractional share. Any such capital gain or loss will be treated as a long-term or short-term gain or loss based on the stockholder's holding period for the IAC common stock.

Backup Withholding and Information Reporting

Payments of cash to a holder of IAC Series A preferred stock who elects to receive cash in exchange for such shares and payments of cash to a holder of IAC common stock in lieu of a fractional share of IAC common stock made in connection with the one-for-two reverse stock split may be subject to information reporting and "backup withholding" at a rate of 28 percent unless a stockholder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with the requirements of the backup withholding rules. Backup withholding does not constitute an additional tax, but merely an advance payment, which may be refunded or credited against a stockholder's federal income tax liability, provided that the required information is supplied to the Internal Revenue Service.

Information Reporting

Current Treasury regulations require each IAC stockholder who receives Expedia common stock or Expedia Series A preferred stock pursuant to the reclassification to attach to his or her U.S. federal income tax return for the year in which the reclassification occurs a detailed statement setting forth such data as may be appropriate in order to show the applicability of Section 355 of the Code.

Certain Additional Tax Considerations Regarding the Ownership of IAC Series B Preferred Stock (and Expedia Series A Preferred Stock)

At the time of a future conversion of IAC Series B preferred stock into IAC common stock (or Expedia Series A preferred stock into Expedia common stock), the conversion price of the IAC Series B preferred stock (or Expedia Series A preferred stock) will be adjusted downward if the share price of IAC common stock (or Expedia common stock) exceeds a trigger price determined in accordance with the formula described under "Treatment of IAC Series A Preferred Stock, Warrants and Indebtedness in the Spin-Off Split of IAC Series A Preferred Stock." In general, a reduction in the conversion price of a convertible preferred stock, such as the IAC Series B preferred stock (or the Expedia Series A preferred stock), may be treated as a deemed distribution in an amount equal to the fair market value of the additional shares of IAC common stock (or Expedia common stock) received as a result of the reduction in the conversion price. Applicable U.S. Treasury regulations provide that a change in conversion ratio or any transaction having a similar effect on the interest of any shareholder may be treated as a distribution with respect to any shareholder whose proportionate interest in the earnings and profits or assets of a corporation is increased by such change or similar transaction. A reduction in the conversion price of the IAC Series B preferred stock (or Expedia Series A preferred stock) will increase the preferred shareholder's proportionate interest in the earnings and profits or assets of IAC (or Expedia).

If the reduction in conversion price is treated as a deemed distribution, a converting shareholder will have dividend income to the extent of IAC's (or Expedia's) current or accumulated earnings and profits. Any excess will be treated as a non-taxable return of capital to the extent of the shareholder's basis in the IAC Series B preferred stock (or Expedia Series A preferred stock), and thereafter as capital gain.

Holders of IAC Series A preferred stock who elect to receive newly issued shares of IAC Series B preferred stock and Expedia Series A preferred stock immediately after the reclassification are urged to consult their tax advisors concerning the proper treatment of the potential reduction in the conversion price of the IAC Series B preferred stock (or Expedia Series A preferred stock).

Treatment of Outstanding IAC Compensatory Equity-Based Awards

Treatment of IAC Options

Vested IAC Options: Each vested option to purchase shares of IAC common stock will convert into an option to purchase shares of IAC common stock and an option to purchase shares of Expedia common stock with adjustments to the number of shares subject to each option and the option exercise prices based on the relative market capitalizations of IAC and Expedia following the spin-off and giving effect to the one-for-two reverse stock split.

Except as otherwise described above and except to the extent otherwise provided under local law, following the spin-off, the converted options will have the same terms and conditions, including the same exercise periods, as the vested options to purchase IAC common stock had immediately prior to the spin-off.

Following the spin-off, solely for purposes of determining the expiration of options with respect to shares of common stock of one company held by employees of the other company, IAC and Expedia employees will be deemed employed by both companies for so long as they continue to be employed by whichever of the companies employs them immediately following the spin-off.

Unvested IAC Options: Each unvested option to purchase shares of IAC common stock (other than those unvested options held by Mr. Diller) will convert into an option to purchase shares of common stock of the applicable company (IAC or Expedia, as the case may be) for which the applicable employee works following the spin-off with adjustments to the number of shares subject to the option and the option exercise price based on the relative market capitalizations of IAC and Expedia following the spin-off and giving effect to the one-for-two reverse stock split.

Except as otherwise described above and except to the extent otherwise provided under local law, following the spin-off, the unvested options to purchase shares of common stock of the applicable company will have the same terms and conditions, including the same vesting provisions and exercise periods, as the unvested IAC options had immediately prior to the spin-off.

Unvested IAC Options Held by Mr. Diller

Each unvested option to purchase shares of IAC common stock held by Mr. Diller will convert into an unvested option to purchase shares of IAC common stock and an unvested option to purchase shares of Expedia common stock with adjustments to the number of shares subject to each option and the option exercise prices based on the relative market capitalizations of IAC and Expedia following the spin-off and giving effect to the one-for-two reverse stock split.

Treatment of IAC RSUs

All IAC restricted stock units will convert into restricted stock units of the applicable company (IAC or Expedia, as the case may be) for which the applicable employee works following the spin-off with adjustments to the number of shares underlying each restricted stock unit based on the relative market capitalizations of IAC and Expedia following the spin-off and giving effect to the one-for-two reverse stock split.

Except as otherwise described above and except to the extent otherwise provided under local law, following the spin-off, the restricted stock units of the applicable company will have the same terms and conditions, including the same vesting provisions, as the IAC restricted stock units had immediately prior to the date of the spin-off.

Treatment of IAC Series A Preferred Stock, Warrants and Indebtedness in the Spin-Off

General

In connection with the spin-off, IAC will effect a one-for-two reverse stock split. As a consequence, securities that are convertible into IAC common stock will be proportionately adjusted in accordance with their terms to take into account the one-for-two reverse stock split.

Split of IAC Series A Preferred Stock

IAC will mail to each holder of IAC Series A preferred stock a Letter of Transmittal, Form of Election and related instructions that will allow each holder to indicate whether the holder chooses to receive (1) $50.00 in cash per share, plus accrued and unpaid dividends, (2) the IAC common stock and Expedia common stock that a holder of IAC Series A preferred stock would have received had the holder converted its IAC Series A preferred stock into IAC common stock immediately prior to the spin-off or (3) one share of IAC Series B preferred stock and one share of Expedia Series A preferred stock, each of which will mirror in all material respects the terms of the current IAC Series A preferred stock, as adjusted to reflect the spin-off and the one-for-two reverse stock split.

With respect to holders of IAC Series A preferred stock who elect to receive shares of IAC Series B preferred stock and Expedia Series A preferred stock following the spin-off, each of their shares of IAC Series A preferred stock will convert into one share of IAC Series B preferred stock and one share of Expedia Series A preferred stock, each of which will mirror in all material respects the terms of the current IAC Series A preferred stock, as adjusted to reflect the spin-off and the one-for-two reverse stock split. For a comparison of rights of the IAC Series A preferred stock, the IAC Series B preferred stock and the Expedia Series A preferred stock, see "Comparison of Rights of Holders of IAC Securities before the Spin-Off with Rights of Holders of IAC Securities and Expedia Securities Following the Spin-Off."

Following the spin-off, the material economic terms of the IAC Series B preferred stock and the Expedia Series A preferred stock will be as follows (after giving effect to the one-for-two reverse stock split):

IAC Series B preferred stock

Face Amount and Liquidation Preference. The per share face amount and liquidation preference of the IAC Series B preferred stock will equal $50 (the current per share face amount and liquidation preference of the IAC Series A preferred stock) multiplied by a fraction equal to 50% of the opening price of IAC common stock on the first trading day following the spin-off divided by the closing price of IAC common stock on the date of the spin-off.

Dividends. Holders of IAC Series B preferred stock will be entitled to receive annual dividends (in cash, common stock, or any combination thereof, at IAC's election) in the amount of 1.99%

of the face amount of the stock, plus the excess, if any, of the value of any dividends paid on the number of shares of IAC common stock into which the preferred stock is then convertible.

Conversion Rights. Each share of IAC Series B preferred stock will be initially convertible into approximately 0.7408 shares of IAC common stock (the "conversion factor"). If the share price of IAC common stock exceeds a trigger price (calculated as described below), the conversion factor will increase to a number determined by dividing the face value of the IAC Series B preferred stock by the following quotient:

$$\frac{\text{Face Value} \times \text{IAC}}{(\text{IAC} \times 0.7408) + (0.2396 \times (\text{IAC} \quad \text{Trigger Price}))}$$

where IAC = 10-day average price of IAC common stock for the 10 days prior to the conversion date and the Trigger Price equals $70.20 (the trigger price for the IAC Series A preferred stock after giving effect to the one-for-two reverse stock split) multiplied by a fraction equal to 50% of the opening price of IAC common stock on the first trading day following the spin-off divided by the closing price of IAC common stock on the date of the spin-off.

Expedia Series A preferred stock

Face Amount and Liquidation Preference. The per share face amount and liquidation preference of the Expedia Series A preferred stock will equal $50 (the current per share face amount and liquidation preference of the IAC Series A preferred stock) multiplied by a fraction equal to 50% of the opening price of Expedia common stock on the first trading day following the spin-off divided by the closing price of IAC common stock on the date of the spin-off.

Dividends. Holders of Expedia Series A preferred stock will be initially entitled to receive annual dividends (in cash, common stock, or any combination thereof, at Expedia's election) in the amount of 1.99% of the face amount of the stock, plus the excess, if any, of the value of any dividends paid on the number of shares of Expedia common stock into which the preferred stock is then convertible.

Conversion Rights. Each share of Expedia Series A preferred stock will be initially convertible into 0.7408 shares of Expedia common stock (the "conversion factor"). If the share price of Expedia common stock exceeds a trigger price (calculated as described below), the conversion factor will increase to a number determined by dividing the face value of the Expedia Series A preferred stock by the following quotient:

$$\frac{\text{Face Value} \times \text{EXP}}{(\text{EXP} \times 0.7408) + (0.2396 \times (\text{EXP} \quad \text{Trigger Price}))}$$

where EXP = 10-day average price of Expedia common stock for the 10 days prior to the conversion date and the Trigger Price equals $70.20 (the trigger price for the IAC Series A preferred stock after giving effect to the one-for-two reverse stock split) multiplied by a fraction equal to 50% of the opening price of Expedia common stock on the first trading day following the spin-off divided by the closing price of IAC common stock on the date of the spin-off.

Treatment of IAC Warrants

IAC has outstanding a number of series of warrants subject to different terms and conditions. Generally, IAC warrants will be treated one of two ways in the spin-off, as set forth below. Except as otherwise described below and except to the extent otherwise provided under local law, following the spin-off, the IAC and Expedia warrants, as the case may be, generally will have the same terms and conditions as the warrants to purchase shares of IAC common stock had immediately prior to the spin-off.

46

Publicly Traded Warrants and Warrants Issued in the 2002 VUE Transaction

Each publicly traded warrant, and certain other warrants, including the warrants to purchase shares of IAC common stock issued in the 2002 VUE transaction, among others, will convert in accordance with its terms into a warrant to purchase shares of IAC common stock and a warrant to purchase shares of Expedia common stock. From and after the spin-off and the one-for-two reverse stock split:

- the number of shares of IAC common stock subject to the IAC warrant will equal one half the number of shares of IAC common stock underlying the IAC warrant prior to the spin-off and the one-for-two reverse stock split;

- the per share exercise price of the IAC warrant (rounded up to the nearest whole cent) will equal the per share exercise price of the IAC warrant prior to the spin-off and the one-for-two reverse stock split multiplied by a fraction equal to the opening price of IAC common stock on the first trading day after the date of the spin-off, divided by the closing price of IAC common stock on the date of the spin-off;

- the number of shares of Expedia common stock subject to the Expedia warrant will equal one half the number of shares of IAC common stock underlying the IAC warrant prior to the spin-off and the one-for-two reverse stock split; and

- the per share exercise price of the Expedia warrant will equal the per share exercise price of the IAC warrant (rounded up to nearest whole cent) prior to the spin-off and the one-for-two reverse stock split multiplied by a fraction equal to the opening price of Expedia common stock on the first trading day after the date of the spin-off, divided by the closing price of IAC common stock on the date of the spin-off.

Privately Held Warrants Assumed by IAC in Past Transactions

In connection with prior acquisitions, IAC assumed certain warrants that were adjusted to become exercisable for IAC common stock. Following the spin-off, IAC will remain the contractually obligated party with respect to these warrants and each warrant will represent the right to receive upon exercise by the holders thereof that number of shares of IAC common stock and Expedia common stock that the warrant holder would have received had the holder exercised the warrant immediately prior to the spin-off. Under the separation agreement, Expedia will contractually assume the obligation to deliver Expedia common stock to these warrant holders upon exercise. In addition, immediately after the spin-off, Expedia will issue into an escrow account a number of shares of Expedia common stock sufficient to satisfy the obligation for future delivery of Expedia common stock to the holders of these warrants who elect to exercise their warrants. Under the terms of the escrow, any such shares of Expedia common stock that are not delivered to exercising warrant holders will be returned to Expedia upon the expiration of the warrants in accordance with their terms.

With respect to the warrant obligations to be retained by IAC, warrant holders will receive notice of the above-described adjustment to their warrants pursuant to their terms. Those warrants shall otherwise remain outstanding and subject to their respective warrant agreements.

IAC's Indebtedness

As of March 31, 2005, IAC had issued and outstanding (1) \$360.845 million principal face amount of $6^3/_4$% Senior Notes Due 2005 and (2) \$750 million principal face amount of 7% Senior Notes Due 2013. In connection with the spin-off, these Senior Notes will remain outstanding and continue to be an obligation of IAC. Expedia will have no obligations relating to these Senior Notes.

Subject to satisfaction of applicable closing conditions, upon consummation of the acquisition of Ask Jeeves, IAC will assume the \$115 million principal amount of Ask Jeeves, Inc. Zero Coupon

Convertible Notes Due June 1, 2008 and these notes (which prior to the acquisition are convertible into shares of Ask Jeeves common stock) will become convertible upon exercise by the holders into shares of IAC common stock based upon the exchange ratio in the IAC/Ask Jeeves merger agreement. Following the spin-off, IAC will remain the obligor with respect to the notes and each note will be convertible upon exercise by the holders into such number of shares of IAC common stock and Expedia common stock that a note holder would have received had the holder converted its notes immediately prior to the spin-off. Under the separation agreement, Expedia will contractually assume the obligation to deliver Expedia common stock to the note holders upon conversion. In addition, immediately after the spin-off, Expedia will issue into an escrow account a number of shares of Expedia common stock sufficient to satisfy the obligation for future delivery of Expedia common stock to holders of notes who elect to convert their notes. Under the terms of the escrow, any such shares of Expedia common stock that are not delivered to converting holders of notes will be returned to Expedia at the maturity of the notes.

Post Spin-Off Expedia Financing Arrangements

In connection with the spin-off, it is anticipated that Expedia will enter into an unsecured credit facility of up to $1 billion with various lenders, which will bear interest at a rate equal to a negotiated spread over LIBOR. The credit facility will contain customary warranties, covenants, and events of default. Expedia currently expects that it will draw approximately $150 million under the credit facility concurrent with the completion of the spin-off.

Distribution of IAC and Expedia Securities Following the Spin-Off

Following the spin-off, reclassified IAC common stock and Expedia common stock will be issued electronically by way of direct registration, or in "uncertificated" form, which will eliminate the physical handling and safekeeping responsibilities inherent in owning transferable stock certificates and the need to return a duly executed stock certificate to effect a transfer. The Bank of New York will act as the registrar and transfer agent for IAC common stock and Expedia common stock after the spin-off. After the spin-off, you will be able to transfer shares of IAC common stock or Expedia common stock by mailing to The Bank of New York a transfer and assignment form, which The Bank of New York will provide to holders at no charge upon written request. Holders may request that their shares of IAC common stock or Expedia common stock be issued in certificated form by so indicating on the Letter of Transmittal or by requesting certificated shares in writing from The Bank of New York.

IAC Common Stock and IAC Class B Common Stock

In connection with the spin-off and on account of the one-for-two reverse stock split, certificates representing shares of IAC common stock and IAC Class B common stock prior to the spin-off will represent half the number of shares of IAC common stock and IAC Class B common stock (as applicable) after the spin-off.

Expedia Common Stock and Expedia Class B Common Stock

As promptly as practicable following the spin-off, Expedia's transfer agent will distribute shares of Expedia common stock to those persons who are holders of IAC common stock at 5:00 p.m. on the date of the spin-off by mailing physical certificates representing the shares or by crediting the shares to book-entry accounts established by the transfer agent.

As promptly as practicable following the spin-off, Expedia will distribute shares of Expedia Class B common stock to those persons who are holders of IAC Class B common stock at 5:00 p.m. on the date of the spin-off by mailing physical certificates representing the shares or by crediting the shares to book-entry accounts established by the transfer agent.

Elections of IAC Series A Preferred Stock and Distribution of Designated Election Following the Spin-Off

IAC will mail to each holder of IAC Series A preferred stock a Letter of Transmittal, Election Form and related instructions that will allow each holder to indicate whether the holder chooses to receive (1) $50.00 in cash per share, plus accrued and unpaid dividends, (2) the IAC common stock and Expedia common stock that a holder of IAC Series A preferred stock would have received had the holder converted its IAC Series A preferred stock into IAC common stock immediately prior to the spin-off or (3) one share of IAC Series B preferred stock and one share of Expedia Series A preferred stock, each of which will mirror in all material respects the terms of the current IAC Series A preferred stock, as adjusted to reflect the spin-off and the one-for-two reverse stock split.

In order to receive their designated elections, holders must surrender their certificates representing shares of IAC Series A preferred stock along with their election forms. Holders of IAC Series A preferred stock must return their election forms no later than July 11, 2005. For the avoidance of doubt, holders of IAC Series A preferred stock should note that they will not be entitled to receive their elected consideration unless and until IAC completes the spin-off. Regardless of the submission of any form of election on the part of those holders, the IAC Board of Directors retains the ability to abandon the spin-off for any reason whatsoever.

Holders of IAC Series A preferred stock who have not made an affirmative election by July 11, 2005 will be treated as follows:

- If holders of more than 50% of the outstanding shares elect to receive $50.00 in cash per share, plus accrued and unpaid dividends, then non-electing holders will be deemed to have elected to receive cash; or

- If holders of more than 50% of the outstanding shares do not elect to receive cash, then non-electing holders will be deemed to have elected to receive one share of IAC Series B preferred stock and one share of Expedia Series A preferred stock, each of which will mirror in all material respects the terms of the current IAC Series A preferred stock, as adjusted to reflect the spin-off and the one-for-two reverse stock split.

For those holders of IAC Series A preferred stock who have not made an election, from and after the completion of the spin-off, certificates representing shares of IAC Series A preferred stock will be deemed to represent the default election described above, subject in all events to the surrender of those certificates.

IAC Warrants; Expedia Warrants

IAC's publicly traded warrants will be adjusted as described in this proxy statement/prospectus. Subject to adjustment for the one-for-two reverse stock split and the spin-off, the IAC publicly traded warrants will remain outstanding in electronic, uncertificated form and will continue to be governed by their existing warrant agreements. In addition, Expedia will issue publicly traded Expedia warrants pursuant to adjustments to the IAC publicly traded warrants. These publicly traded Expedia warrants will be issued in electronic, uncertificated form without any action on the part of holders. At or prior to the completion of the spin-off, Expedia will deposit with Mellon Investor Services and The Bank of New York, the exchange and warrant agents for the Expedia publicly traded warrants, the new forms of warrant pursuant to the warrant agreements that will govern the Expedia warrants.

Warrants to purchase shares of IAC common stock issued in the 2002 VUE transaction will be adjusted as described in this proxy statement/prospectus. Subject to adjustment for the one-for-two reverse stock split and the spin-off, the IAC warrants issued in the 2002 VUE transaction will remain outstanding and continue to be governed by their existing warrant agreements. In addition, Expedia will issue Expedia warrants pursuant to adjustments to the IAC warrants issued in the 2002 VUE transaction. These Expedia warrants will be issued in certificated form promptly following the completion of the spin-off. At or prior to the completion of the spin-off, IAC will deposit with the applicable warrant agent the new forms of Expedia warrant.

All other IAC warrants will be adjusted as described in this proxy statement/prospectus. Warrant holders will receive notice of these adjustments pursuant to the terms of the warrants. These warrants will otherwise remain outstanding and subject to their respective warrant agreements.

Listing and Trading of IAC Securities

IAC common stock currently trades on The Nasdaq National Market under the ticker symbol "IACI" and will continue to do so after the spin-off (as adjusted in connection with the spin-off and the one-for-two reverse stock split). Those IAC warrants that currently trade on The Nasdaq Stock Market under the ticker symbol "IACIW" will continue to trade on The Nasdaq Stock Market following the spin-off (as adjusted in connection with the spin-off and the one-for-two reverse stock split) under the ticker symbol "IACIW." Those IAC warrants that currently trade on The Nasdaq Stock Market under the ticker symbol "IACIZ" will continue to trade on The Nasdaq Stock Market following the spin-off (as adjusted in connection with the spin-off and the one-for-two reverse stock split) under the ticker symbol "IACIZ." IAC intends to seek to have the shares of IAC Series B preferred stock, if any, quoted on the OTC Bulletin Board under the ticker symbol "IACIP.OC." In order to do so, a broker-dealer in securities in the United States may be required to file with the National Association of Securities Dealers, Inc. a notice that will enable the broker-dealer to enter quotations for the IAC Series B preferred stock on the OTC Bulletin Board. There can be no assurance that a broker-dealer will file such a notice or, if filed, that quotations will be accepted on the OTC Bulletin Board. Further, there can be no assurance that if a broker-dealer commences to enter bid and asked quotations for the IAC Series B preferred stock on the OTC Bulletin Board that a viable and active trading market will develop.

Listing and Trading of Expedia Securities

Expedia has applied to list Expedia common stock on The Nasdaq National Market and has reserved the ticker symbol "EXPE." Expedia also has applied to list on The Nasdaq Stock Market the two series of Expedia warrants whose predecessor securities currently trade on The Nasdaq Stock Market under the ticker symbols "IACIW" and "IACIZ." These new Expedia warrants are expected to trade under the ticker symbols "EXPEW" and "EXPEZ." Trading in Expedia common stock and Expedia warrants under those symbols is expected to begin on the first business day following the date that IAC completes the spin-off. Expedia intends to seek to have the shares of Expedia Series A preferred stock, if any, quoted on the OTC Bulletin Board under the ticker symbol "EXPEP.OC" in the same manner that IAC intends to seek to have its preferred stock listed. However, there can be no assurance that a viable and active trading market will develop.

Relationship Between IAC and Expedia after the Spin-Off

Following the spin-off, the relationship between IAC and Expedia will be governed by a number of agreements. These agreements include:

- a separation agreement;
- a tax sharing agreement;
- an employee matters agreement; and
- a transition services agreement

IAC and Expedia have attached forms of the separation agreement, the tax sharing agreement, the employee matters agreement and the transition services agreement as appendices to this proxy statement/prospectus, and the summaries of these documents that follow are qualified in their entirety by reference to the full text of those documents.

Separation Agreement

The separation agreement provides that IAC will, immediately prior to the spin-off, contribute or otherwise transfer to Expedia all of the subsidiaries and assets primarily related to IAC's travel and travel-related businesses (other than Interval International and TV Travel Shop, which IAC will retain) and TripAdvisor. In general, IAC will effect the transfer of Expedia assets through a series of contributions of relevant IAC subsidiaries. Similarly, Expedia or one of its subsidiaries will assume all of the liabilities primarily relating to IAC's travel and travel-related businesses, as described above, and TripAdvisor immediately prior to the spin-off. Expedia has agreed to take each Expedia asset and to assume and perform each Expedia liability on an "as is, where is" basis, and IAC has made no representations or warranties with respect to any aspect of the Expedia assets or the Expedia liabilities.

Other matters governed by the separation agreement include the assumption by Expedia of the obligations to deliver shares of Expedia common stock upon conversion of the Zero Coupon Convertible Notes Due June 1, 2008 to be assumed by IAC in the Ask Jeeves acquisition and upon the exercise of certain IAC warrants, insurance and related reimbursement arrangements, provision and retention of records, access to information and confidentiality, cooperation with respect to governmental filings and third party consents, access to property, control of ongoing litigation and indemnification arrangements relating to liabilities of each party.

Under the separation agreement,

- if holders of less than 85% of the outstanding shares of IAC Series A preferred stock elect to receive the cash consideration in connection with the spin-off, then IAC will reimburse Expedia an amount in cash equal to the redemption price per share of Expedia Series A preferred stock for each share of Expedia Series A preferred stock that Expedia redeems following the spin-off; and

- if holders of 85% or more of the outstanding shares of IAC Series A preferred stock elect (or are deemed to elect) to receive the cash consideration in connection with the spin-off, IAC will not have any such reimbursement obligation.

Pursuant to the separation agreement, Expedia and its subsidiaries have agreed to indemnify IAC, its affiliates and their respective current and former directors, officers and employees for any losses arising out of any breach of the separation agreement, the tax sharing agreement, the employee matters agreement, the transition services agreement and any failure by Expedia to assume and perform any of the Expedia liabilities. IAC and its subsidiaries have agreed to indemnify Expedia and its affiliates and their respective current and former directors, officers and employees for any losses arising out of any breach of the separation agreement, the tax sharing agreement, the transition services agreement, the employee matters agreement and any failure by IAC to perform any of the IAC liabilities. Expedia has also agreed to indemnify IAC against any liabilities relating to the Expedia financial and business information included in this proxy statement/prospectus. In addition, from and after the completion of the spin-off, each of IAC and Expedia have generally agreed to bear 50% of the costs and liabilities associated with any securities law litigation relating to the conduct prior to the spin-off of the businesses or entities that comprise Expedia following the spin-off, regardless of whether the litigation arises prior to or after the spin-off. Following the spin-off, Expedia will bear 100% of the costs and liabilities associated with any other litigation relating to the conduct, prior to or after the spin-off, of the businesses or entities that comprise Expedia following the spin-off, regardless of whether the litigation arises before or after the spin-off.

IAC may terminate the separation agreement and abandon the spin-off, in its sole discretion, at any time prior to completion of the spin-off.

Tax Sharing Agreement

The tax sharing agreement governs IAC's and Expedia's respective rights, responsibilities and obligations after the spin-off with respect to taxes for the periods ending on or before the spin-off. Generally, the tax sharing agreement provides that although IAC will pay taxes with respect to the Expedia income included on its consolidated return, other pre-distribution taxes that are attributable to the business of one party, including audit adjustments with respect to consolidated periods, will be borne solely by that party. Pursuant to the tax sharing agreement, IAC will prepare and file the federal consolidated return, and any other income tax returns that include Expedia with respect to any taxable period ending on or prior to, or including, the distribution date with the appropriate tax authorities and will pay any taxes relating thereto to the relevant tax authority. Expedia will prepare and file all separate company tax returns for Expedia and its subsidiaries, and pay all taxes due with respect to such tax returns for all taxable periods. In general, IAC controls all audits and administrative matters relating to the consolidated return of the IAC group.

Under the tax sharing agreement Expedia generally (i) may not take (or fail to take) any action that would cause any representations, information or covenants in the separation documents or documents relating to the tax opinion concerning the spin-off to be untrue, (ii) may not take (or fail to take) any action that would cause the spin-off to lose its tax free status, (iii) may not sell, issue, redeem or otherwise acquire any of its equity securities (or equity securities of members of its group), except in specified transactions for a period of 25 months following the spin-off and (iv) may not, other than in the ordinary course of business, sell or otherwise dispose of a substantial portion of its assets, liquidate, merge or consolidate with any other person for a period of 25 months following the spin-off. During that period, Expedia may take some actions prohibited by these covenants if it provides IAC with an Internal Revenue Service ruling or an unqualified opinion of counsel to the effect that these actions will not affect the tax free nature of the spin-off, in each case satisfactory to IAC in its sole and absolute discretion. Notwithstanding the receipt of any such Internal Revenue Service ruling or opinion, Expedia must indemnify IAC for any taxes and related losses resulting from (i) any act or failure to act described in the covenants above, (ii) any acquisition of equity securities or assets of Expedia or any member of its group, and (iii) any breach by Expedia or any member of its group of representations in the separation documents between IAC and Expedia or the documents relating to the tax opinion concerning the spin-off.

Under U.S. federal income tax laws, Expedia and IAC are severally liable for all of IAC's federal income taxes attributable to the periods prior to and including the current taxable year of IAC, which ends on December 31, 2005. Thus, if IAC fails to pay the taxes attributable to it under the tax sharing agreement for periods prior to and including the current taxable year of IAC, Expedia may be responsible for these tax liabilities.

Employee Matters Agreement

The employee matters agreement covers a wide range of compensation and benefit issues related to the spin-off. In general, IAC is responsible for all employment and benefit-related obligations and liabilities of current and former IAC employees (and their dependents and beneficiaries), except for employment and benefit-related obligations and liabilities related to employees who work for Expedia immediately following the spin-off (and their dependents and beneficiaries) and former employees who most recently worked for businesses and operations that will be owned by Expedia following the completion of the spin-off. IAC and Expedia will also be responsible for any other liabilities retained by or transferred to, as the case may be, such entity pursuant to the employee matters agreement.

After the spin-off, Expedia no longer will participate in IAC's employee benefit plans, but will have established its own employee benefit plans that will be substantially similar to the plans sponsored by IAC prior to the spin-off. Assets and liabilities from the IAC Retirement Savings Plan will be transferred to a newly established Expedia Retirement Savings Plan as soon as practicable following the spin-off. As of the date of the completion of the spin-off, Expedia will establish the Expedia Health and Welfare Benefit Trust to fund liabilities under certain health and welfare plans of Expedia, and IAC will transfer an amount intended to cover "incurred but not reported," or IBNR, benefit liabilities, as determined by the plan actuary, to Expedia as initial funding of that trust. Pursuant to the employee matters agreement, Expedia will be responsible for determining payment amounts for all bonus awards granted under IAC bonus plans to employees who will be employed by Expedia following the spin-off and will be responsible for any such liabilities. For a description of the treatment of outstanding IAC equity awards pursuant to the employee matters agreement, see "Treatment of Outstanding IAC Compensatory Equity-Based Awards."

Transition Services Agreement

Under the transition services agreement IAC will provide to Expedia on an interim, transitional basis, various services, including governmental affairs, internal audit services, corporate sourcing (including technology operations and strategic sourcing), legal affairs and assistance with certain public company functions, and such other services as to which IAC and Expedia mutually agree. The charges for these services will be on a cost plus fixed percentage or hourly rate basis to be agreed upon prior to the completion of the spin-off.

In general, the services will begin on the date of the completion of the spin-off and will cover a period generally not expected to exceed 18 months following the spin-off. Expedia may terminate the agreement with respect to one or more particular services upon 90 days, prior written notice.

Commercial Agreements

The operating businesses that constitute IAC prior to the spin-off currently, and for the foreseeable future, will continue to work together pursuant to a variety of commercial relationships. In connection with the spin-off, IAC and Expedia will institute various commercial agreements between subsidiaries of IAC, on the one hand, and subsidiaries of Expedia, on the other hand. IAC and Expedia believe that all such agreements have been negotiated at arm's length between the applicable counterparties. In addition, IAC and Expedia believe that such agreements, whether taken individually or in the aggregate, do not constitute a material contract to either IAC or Expedia. Below is a brief description of such agreements that, individually or together with similar agreements, involve revenues to either IAC or Expedia in excess of $60,000.

Distribution Agreements. Certain subsidiaries of IAC distribute their respective products and services via arrangements with certain subsidiaries of Expedia, and vice versa. For example:

- Citysearch makes available inventory from Expedia.com travel suppliers and TripAdvisor content and commerce links;
- EPI makes available, via both the Entertainment Book and online, certain inventory and promotional offers from both Hotels.com and Hotwire travel suppliers;
- Interval makes available inventory from both Expedia.com and Hotels.com travel suppliers via affiliate relationships;
- Expedia.com and Hotels.com each make available to their respective customers certain products of EPI (such as discount coupon programs), either for purchase by or as a value-added service to such customers;
- Expedia.com offers certain Ticketmaster client ticketing inventory to its customers;
- TripAdvisor distributes Citysearch commerce links on TripAdvisor;
- Ask Jeeves will place branded search boxes on Expedia web pages, and Expedia companies will supply content for Ask Jeeves search results; and
- each of Expedia.com, Hotels.com and Hotwire makes available for bookings to their respective consumers certain resort inventory of Interval.

Distribution agreements typically involve the payment of fees (usually on a fixed-per-transaction, revenue share or commission basis) from the party seeking distribution of the product or service to the party that is providing the distribution.

Services Agreements. Certain subsidiaries of IAC provide certain subsidiaries of Expedia with various services, and vice versa. Such arrangements include the following:

- PRC provides call center support to both Expedia.com and Hotels.com;
- Ticketmaster provides certain call center support to Hotels.com;
- Ticketmaster provides advertising sales services to Expedia.com;
- Expedia.com provides certain private-label travel services to Interval for use by its exchange members; and
- Hotels.com provides certain call center support to Match.com.

Aggregate revenues in respect of distribution and services agreements received by IAC subsidiaries from businesses that Expedia will own following the spin-off approximated $15.9 million in 2004. Aggregate revenues in respect of distribution and services agreements received by businesses that Expedia will own following the spin-off were not material in 2004.

Advertising Agreement. IAC currently provides certain subsidiaries of Expedia with advertising time, primarily on the USA and Sci Fi cable channels, without any cash cost, pursuant to existing agreements with these subsidiaries. The advertising time provided was secured by

IAC pursuant to an agreement with Universal as part of the 2002 VUE transaction. See "Certain Relationships and Related Party Transactions 2002 VUE Transaction."

In connection with the spin-off, IAC has agreed that Expedia will be entitled to $21.8 million from the remaining advertising time available to IAC from Universal through its 2001 media agreement. This advertising time, which expires in 2007, may be used by Expedia subject to maximum annual dollar thresholds.

Aircraft Agreements. After the spin-off, a subsidiary of IAC and Expedia will enter into a time sharing agreement pursuant to which Expedia will be able to use the aircraft jointly owned by a subsidiary of IAC and an affiliate of Mr. Diller. Pursuant to the time sharing arrangement, Expedia will pay IAC the maximum amount permitted under applicable Federal Aviation Association regulations for its use of the aircraft, or roughly two times the actual fuel cost incurred in such usage, plus certain enumerated out-of-pocket expenses. IAC currently plans to sell this aircraft within the next year, at which point this arrangement would terminate.

It is also expected that IAC and Expedia will each have a 50% ownership interest in an aircraft that will be used by both companies. IAC and Expedia will enter into an operating agreement that will allocate the cost of operating and maintaining the aircraft between the parties based on the actual usage by each company. On the fifth anniversary of the spin-off transaction and annually thereafter, or at any time Mr. Diller ceases to be chairman of either IAC or Expedia, IAC will have a call right and Expedia will have a put right with respect to Expedia's interest in the aircraft, in each case at fair market value. Additionally, IAC will control the sale of the aircraft.

Information about IAC after the Spin-Off

The following disclosure regarding IAC's businesses assumes the completion of the acquisition of Ask Jeeves, which is expected to occur prior to the spin-off, and the completion of the spin-off. See "Recent Developments."

Overview

IAC operates leading and diversified businesses in sectors being transformed by the internet, online and offline. IAC's 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 businesses described below. IAC enables billions of dollars of consumer-direct transactions for products and services via the internet and telephone.

IAC consists of the following businesses:

- Electronic Retailing, which includes HSN U.S. and HSN International;
- Ticketing, which includes Ticketmaster;
- Interval International;
- Personals, which includes Match.com;
- Ask Jeeves, assuming completion of the pending acquisition;
- Citysearch, Evite, Entertainment Publications and ServiceMagic (since September 2004);
- Financial Services and Real Estate, which includes LendingTree and its affiliated brands and businesses; and
- Teleservices, which includes Precision Response Corporation.

For information regarding IAC's consolidated results of operations on a pro forma basis to give effect to IAC's acquisition of Cornerstone Brands in April 2005, the completion of the acquisition of Ask Jeeves and the completion of the spin-off, see the Unaudited Pro Forma Condensed Combined Financial Statements for IAC attached as Annex B to this proxy statement/prospectus.

History

Since its inception, IAC has transformed itself from a hybrid media/electronic retailing company into an interactive commerce company. IAC was incorporated in July 1986 in Delaware under the name Silver King Broadcasting Company, Inc., or Silver King, as a subsidiary of Home Shopping Network, Inc., or Home Shopping Network. On December 28, 1992, Home Shopping Network distributed the capital stock of

Silver King to its stockholders. In December 1996, IAC completed mergers with Savoy Pictures Entertainment, Inc., or Savoy, and Home Shopping Network, with Savoy and Home Shopping Network becoming subsidiaries of Silver King. In connection with these mergers, IAC changed its name from Silver King Broadcasting Company, Inc. to HSN, Inc.

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

In February 2002, IAC acquired a controlling stake in Expedia.com. In May 2002, after contributing its entertainment assets to a joint venture then controlled by Vivendi, IAC changed its name to USA Interactive. In September 2002, IAC acquired Interval International.

In 2003, IAC acquired the minority interests in its formerly public subsidiaries, Expedia.com, Hotels.com, and Ticketmaster, and acquired a number of other companies, including Entertainment Publications, Inc., LendingTree and Hotwire. IAC changed its name to InterActiveCorp in June 2003 and to IAC/InterActiveCorp in July 2004.

On December 21, 2004, IAC announced its plans relating to the spin-off. On April 1, 2005, IAC completed the acquisition of Cornerstone Brands, Inc. On March 21, 2005, IAC and Ask Jeeves announced that they had signed an agreement pursuant to which IAC will purchase Ask Jeeves, subject to the approval of Ask Jeeves' stockholders and receipt of the requisite regulatory approvals and the satisfaction of customary closing conditions.

Electronic Retailing

HSN U.S.

Overview. HSN U.S. sells a variety of consumer products, primarily through the HSN and America's Store television networks and HSN.com, as well as through consumer catalog services and infomercials. The HSN and America's Store television networks both broadcast live, customer-interactive electronic retail sales programming 24 hours a day, seven days a week.

Programming produced by HSN U.S. is intended to promote sales and customer loyalty through a combination of product quality, price and value, coupled with product information and entertainment. Programming on the HSN and America's Store television networks is divided into separately televised segments, each of which has a host who presents and conveys information regarding the featured product, sometimes with the assistance of a representative from the product vendor.

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

HSN U.S. provides viewers with a number of convenient options in connection with the purchase, payment and shipping of merchandise, which vary by product, including the AutoShip program, pursuant to which customers can arrange to have purchases automatically sent and billed to them on a regularly scheduled basis, and the Flexpay option, which allows customers to pay for purchases in up to five monthly, interest-free installments. Standard and express shipping options are available and customers may generally return most merchandise within 30 days of receipt for a full refund or exchange.

HSN U.S. purchases merchandise made to its specifications, as well as merchandise from name brand vendors and other third party lines, typically under certain exclusive rights, and overstock inventories from wholesalers, the mix and source of which depends upon a variety of factors, including price and availability. HSN U.S. generally does not enter into long-term supply arrangements with any of its vendors, given that there are a variety of sources of supply available.

Reach. As of December 31, 2003 and 2004, the HSN television network reached approximately 81.1 million and 85.5 million of the approximately 108.4 million and 109.6 million homes in the United

States with a television set, respectively. Television households reached by the HSN television network as of December 31, 2003 and 2004 primarily include approximately 61.9 million and 62.6 million households capable of receiving cable and/or broadcast transmissions and approximately 18.6 million and 22.6 million direct broadcast satellite system, or DBS, households, respectively.

As of December 31, 2003 and 2004, the America's Store television network reached approximately 10.4 and 13.0 million DBS households and approximately 7.1 million and 6.2 million cable television households, of which approximately 3.5 million and 4.3 million were distributed on a digital tier, respectively. Of the total number of cable television households that received the America's Store television network as of December 31, 2003 and 2004, approximately 6.9 and 6.0 million, respectively, also received the HSN television network.

HSN U.S. produces live programming for the HSN and America's Store television networks in its studios in St. Petersburg, Florida. HSN U.S. distributes its programming by means of its satellite uplink facilities, which it owns and operates, to two satellite transponders leased by HSN U.S. on a full-time basis through May 2019 and November 2019.

Pay Television Distribution. HSN U.S. has entered into multi-year affiliation agreements with cable operators and the two largest DBS operators in the United States to carry the HSN and/or America's Store television networks, as well as to promote one or both networks by carrying related commercials and distributing related marketing materials to their respective subscriber bases. In exchange for this carriage and related promotional and other efforts, including commitments to deliver pre-determined numbers of subscribers over specified time periods, HSN U.S. generally pays these pay television operators a commission, based on a percentage of the net merchandise sales, to their subscriber bases. In certain cases, pay television operators receive additional compensation in the form of the purchase of advertising time on other programming networks, commission guarantees and/or upfront payments in exchange for their commitments to deliver subscribers.

From time to time, pending the renewal of an existing affiliation agreement or the negotiation of a new affiliation agreement, the HSN and/or America's Store television networks will be carried by one or more pay television operators without an effective affiliation agreement in place. Renewal and negotiation processes with pay television operators are typically protracted. Existing affiliation agreements with certain major cable operators and DBS operators are scheduled to expire over the course of 2005. Some, but not all of these agreements, contain renewal provisions. While HSN U.S. intends to pursue the renewal of, or negotiate new, cable and DBS affiliation agreements to carry the HSN and/or America's Store television networks, no assurances can be given that it will be able to do so on acceptable terms, if at all.

Broadcast Television Distribution. As of December 31, 2004, HSN U.S. also had affiliation agreements with 1 full-time, full power television station, 18 part-time, full power television stations and 103 low power television stations for carriage of the HSN and/or America's Store television networks with terms ranging from several weeks to several years. In exchange for this carriage, HSN U.S. pays broadcast television stations hourly or monthly fixed rates. The HSN and/or America's Store networks are also distributed on a full-time basis by 27 low power television stations pursuant to a long-term affiliation agreement between HSN U.S. and Ventana Television, Inc., a wholly-owned subsidiary of IAC.

HSN.com. HSN U.S. operates HSN.com, a transactional e-commerce site that serves as an alternative storefront for merchandise featured on the HSN and/or America's Store television networks, as well as a significant amount of additional inventory available only through HSN.com. HSN.com also provides consumers with additional content to support and enhance HSN television programming, including an online program guide, a 24-hour product review through which consumers can find and view products previously featured on the HSN television network, live streaming video of the HSN television network and additional information about HSN show hosts and guest personalities.

Consumers can also track the status of their online orders, communicate directly with customer service via e-mail and manage their account information through HSN.com. HSN.com generated approximately 15.9% of HSN U.S. sales in 2004.

Catalog Services and Infomercials. HSN U.S. catalog services consists of three consumer catalogs and related websites that feature thousands of home, yard and automotive products. New editions of the full-color catalogs are mailed to customers several times each year for a total annual circulation of over 80 million catalogs. On April 1, 2005, IAC acquired Cornerstone Brands, a portfolio of leading print catalogs and related online retailing sites that sell home products and leisure and casual apparel. Cornerstone Brands' portfolio includes Frontgate, Ballard Designs, Garnet Hill, Smith and Noble, The Territory Ahead and TravelSmith. IAC currently operates and manges the existing catalog services of HSN U.S. as part of Cornerstone Brands. HSN U.S. also offers select products through nationwide infomercial campaigns, which it produces and manages, on pay television networks on a limited basis.

HSN International

As of December 31, 2004, HSN International consisted of HSE-Germany, EUVÍA and Quiz TV (which operates an interactive game and quiz show television channel based in London, England), as well as minority interests in home shopping businesses in China and Japan.

HSE-Germany. As of December 31, 2004, HSN International owned approximately 90% of HSE-Germany. HSE-Germany operates a German-language home shopping business that is broadcast 24 hours a day, seven days a week, in Germany, Austria and Switzerland and also generates sales on its own website. HSN International acquired the remaining 10% interest in HSE-Germany that it did not already own on February 9, 2005. As of December 31, 2004, HSE-Germany had approximately 19.9 million cable and 9.8 million satellite subscribers in Germany, approximately 943,000 cable and 1.0 million satellite subscribers in Austria and approximately 1.3 million cable and 220,000 satellite subscribers in Switzerland.

HSE-Germany does not need a license from German state media authorities to broadcast its programming over-the-air, via cable or via satellite. However, HSE-Germany generally must still obtain the right to broadcast its programming in a given state on a given cable channel from state media authorities in each of Germany's 16 states on a periodic basis, generally every 18 to 24 months. HSE-Germany enters into affiliation agreements with local cable operators in each of Germany, Austria and Switzerland, as well as with one principal DBS operator for carriage in all of these countries. No assurances can be given that HSE-Germany will be able to maintain its existing rights to broadcast its programming over the cable networks of each of Germany's 16 states and/or negotiate affiliation agreements with pay television operators on acceptable terms, if at all.

EUVÍA. As of December 31, 2004, HSN International owned, through a German subsidiary, 48.6% of EUVÍA, a German limited partnership that operates two television broadcasting businesses in Germany. As of December 31, 2004, ProSiebenSat.1 Media AG, the second largest German television group, owned 48.4% of EUVÍA, with the remaining 3% of EUVÍA, over which HSN International also had voting control as of that date, owned by EUVÍA's CEO. IAC sold its interest in EUVÍA in June 2005.

Competition

HSN U.S. HSN U.S. operates in a highly competitive environment. The HSN and America's Store television networks are in direct competition with traditional offline and online retailers, ranging from large department stores to specialty shops, electronic retailers, direct marketing retailers, such as mail order and catalog companies, and discount retailers. The HSN and America's Store television networks compete with, and HSN U.S. expects to face increasing competition from, other companies that market merchandise by means of live television. The HSN and America's Store television networks also compete for access to customers and audience share with other conventional forms of entertainment and content. The price and availability of programming for pay television systems affect the availability of distribution for HSN U.S. programming and the compensation that must be paid to pay television operators for related carriage.

In addition, competition for channel capacity has increased. While the advent of digital cable may decrease this competition, this additional capacity may encourage competitors to enter the marketplace, which could adversely affect the ability of HSN U.S. to attract viewers and customers. No prediction can be made with respect to the extent to which digital technology will ultimately impact the availability of channel capacity or the ability of new competitors to enter the marketplace. Also, certain broadcast television stations can demand carriage on local cable systems pursuant to "must-carry" rights, which may apply to digital television in the future. HSN U.S. is and will continue to be affected by these mandatory carriage rights to the extent that they decrease the number of available cable channels. No assurances can be provided that HSN U.S. will be able to secure well-positioned channel capacity on attractive terms and its inability to do so could have a material adverse effect on its business, financial condition and results of operations.

HSN.com competes with numerous brick-and-mortar retailers, other online and offline retailers, catalog merchants and television shopping channels. A number of HSN.com's online competitors have a larger user base and greater expertise in developing online commerce. HSN U.S. believes that the principal competitive factors in this market are selection of goods, customer service, reliability of delivery, brand recognition, convenience and accessibility, price, quality of search tools and system reliability.

HSN International. HSE-Germany competes in Germany with traditional retailers, direct marketing retailers and other electronic retailers, some of which offer 24-hour electronic retailing or use infomercials and a small amount of live programming.

Regulation

Congress, the FCC and federal courts currently are reviewing certain existing cable, newspaper and media ownership restrictions. Depending on the outcome of FCC proceedings and of any subsequent court review, individual cable operators might acquire control over larger segments of the nation's cable customers and channels, in which case HSN U.S. could be required to negotiate with fewer cable operators that would control larger portions of the market for the terms of and opportunity to secure carriage. Regardless of the outcome of these FCC proceedings, the antitrust laws could impose independent limitations on the concentration of cable ownership. HSN U.S. cannot predict the outcome of these FCC proceedings, any subsequent court challenges, or future applications of the antitrust laws. No assurances can be made that the outcome of these FCC proceedings and subsequent marketplace activity would not materially affect HSN U.S. or IAC.

HSN U.S. is subject to a variety of consumer protection laws and regulations relating to the accuracy of its product claims.

Ticketing

Overview

Ticketmaster and its affiliated brands provide online and offline ticketing services through Ticketmaster-owned websites, operator-staffed call centers and independent retail outlets, serving many of the foremost venues, entertainment facilities, promoters and professional sports franchises in the United States and abroad, including in Canada, Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom. Ticketmaster has also entered into joint ventures with third parties to provide ticket distribution services in Australia and Mexico.

Ticketmaster has continued to expand its ticketing operations into territories outside of the United States and continues to experience growth in these markets. Ticketmaster sold approximately 26.1 million tickets in 2003 as compared to approximately 29.3 million in 2004 in these markets (excluding sales by unconsolidated international joint ventures).

Ticketmaster also continues to expand its ticket distribution capabilities through the continued development of its website, *www.ticketmaster.com*, and related domestic and international websites, which are designed to promote ticket sales for live events and disseminate event information. Ticketmaster's primary ticketing website, *www.ticketmaster.com*, is a leading online ticketing service that enables consumers to purchase tickets over the Internet for live music, sports, arts and family entertainment events presented by Ticketmaster's clients. Consumers can access *www.ticketmaster.com* directly, or from the websites of Ticketmaster's affiliates, including Citysearch, and through numerous direct links from banners and event profiles hosted by approved third party websites. In addition, *www.ticketmaster.com* and related international websites provide local information and original content regarding live events for Ticketmaster clients throughout the United States and abroad. Ticketmaster has experienced growth in ticket sales through its websites in recent years and Ticketmaster expects that this trend will continue during the next several fiscal years, although at a slower pace. As of December 31, 2004, online ticket sales through *www.ticketmaster.com* and related websites accounted for more than one half of Ticketmaster's ticketing volume.

Ticketmaster System

Ticketmaster believes that its proprietary operating system and software, generally referred to as the Ticketmaster System, as well as its extensive distribution capabilities, provide its clients with a number of benefits. The Ticketmaster System, which includes both hardware and software, is typically located in a data center that is managed by Ticketmaster staff. The Ticketmaster System provides a single, centralized inventory control and management system capable of tracking total ticket inventory for all events, whether sales are made on a season, subscription, group or individual ticket basis. All necessary hardware and software required for the use of the Ticketmaster System is installed in a client's facility box office, call centers or remote sales outlets. The versatility of the Ticketmaster System allows it to be customized to satisfy a full range of client requirements. In areas of Europe outside of the United Kingdom and Ireland, Ticketmaster's operating businesses generally use localized versions of Ticketmaster's proprietary operating system and software, or their own separate, local operating systems and software, all of which are also proprietary to Ticketmaster.

Client Relationships

Ticketmaster generally enters into written agreements with its clients pursuant to which it agrees to provide the Ticketmaster System and related systems purchased by the client, and to serve as the client's exclusive ticket sales agent for all sales of individual tickets sold to the general public outside of the facility's box office, including any tickets sold at remote sales outlets, over the phone or via the Internet, for specified multi-year periods. Pursuant to an agreement with a facility, Ticketmaster generally is granted the right to sell tickets for all events presented at that facility for which tickets are publicly available, and as part of such arrangement Ticketmaster installs the necessary ticketing equipment in the facility's box office. An agreement with a promoter generally grants Ticketmaster the right to sell tickets for all events presented by that promoter at any facility for which tickets are publicly available, unless the facility is covered by an exclusive agreement with Ticketmaster or another automated ticketing service company.

Ticketmaster generally does not buy tickets from its clients for resale to the public and typically assumes no financial risk for unsold tickets. All ticket prices are determined by Ticketmaster's clients. Ticketmaster's clients also generally determine the scheduling of when tickets go on sale to the public and what tickets will be available for sale through Ticketmaster. Facilities and promoters, for example, often handle group sales and season tickets in-house. Ticketmaster only sells a portion of its clients' tickets, the amount of which varies from client to client and varies as to any single client from year to year.

Revenues

Ticketing revenue is generated principally from convenience charges and order processing fees received by Ticketmaster for each ticket sold by Ticketmaster on behalf of its clients. These charges are negotiated and included in Ticketmaster's contracts with its clients. Pursuant to its contracts with clients, Ticketmaster is granted the right to collect from ticket purchasers a per ticket convenience charge on all tickets sold through *www.ticketmaster.com*, by telephone and through remote sales outlets and other media. There is an additional "order processing" fee on all ticket orders sold by Ticketmaster, other than at remote sales outlets. Generally, the amount of the convenience charge is determined during the contract negotiation process, and typically varies based upon numerous factors, including the services to be rendered to the client, the amount and cost of equipment to be installed at the client's box office and the amount of advertising and/or promotional allowances to be provided, as well as the type of event and whether the ticket is purchased through *www.ticketmaster.com*, by telephone, through a remote sales outlet or other media. Any deviations from those amounts for any event are negotiated and agreed upon by Ticketmaster and its client prior to the commencement of ticket sales. Generally, the agreement between Ticketmaster and a client will also establish the amounts and frequency of any increases in the convenience charge and order processing fees during the term of the agreement. In certain cases, clients may participate in the convenience charges and/or order processing fees paid by ticket purchasers for tickets bought through Ticketmaster for their events. The amount of such participation, if any, is determined by negotiation between Ticketmaster and the client.

ReserveAmerica

ReserveAmerica, an outdoor recreation reservation services company, is a leading provider of camping and ticketing services and software to United States federal and state agencies. Specific areas include services for outdoor recreation point-of-sale systems, tour ticketing management, camping reservations and general recreation ticketing to public land attractions. The ReserveAmerica system permits the general public to make camping reservations and obtain access to public recreation attractions over the Internet, by telephone and in person. ReserveAmerica's websites, *www.reserveamerica.com*, *www.reserveusa.com., hearst.reserveamerica.com* and *www.bwcaw.org* service up to 1,500,000 visitors monthly. ReserveAmerica also maintains four telephone call centers in New York, California, Florida and Wisconsin.

Competition

Ticketmaster's ticketing business faces competition from other national, regional and local ticketing service companies and entertainment organizations with ticketing distribution capabilities, as well as from its clients and aggregations of its clients, such as major league sports leagues, which increasingly have the capability to fulfill ticketing distribution and management functions through their own systems. Not all facilities, promoters and other potential clients use the services of an automated ticketing company, choosing instead to distribute their tickets through their own internal box offices or other distribution channels.

Other companies compete with Ticketmaster by selling stand-alone automated ticketing systems to enable facilities to do their own ticketing. Several of Ticketmaster's competitors have operations in multiple locations, while others compete principally in one specific geographic location. Ticketmaster experiences substantial competition for potential client accounts and renewals of contracts on a regular basis. Accordingly, there can be no assurance that prospective or renewal clients will enter into contracts with Ticketmaster rather than Ticketmaster's competitors (including clients that choose to self-distribute with or without the assistance of the numerous companies that support self-distribution). Ticketmaster competes on the basis of products and service provided, capability of the ticketing system, its distribution network, reliability and price.

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

Regulation

Ticketmaster is subject to certain state and local regulations, including laws in several states establishing maximum convenience and processing charges on tickets for certain live events in the primary and/or secondary ticketing markets. Other legislation that could affect the way Ticketmaster does business, including legislation that would further regulate convenience charges and order-processing fees, is introduced from time to time in federal, state and local legislative bodies in the United States and abroad. Ticketmaster is unable to predict whether any such legislation will be adopted and, if so, the impact on its business.

Personals

Overview

Personals consists primarily of Match.com, uDate.com and related brands. These brands and their networks serviced approximately 983,000 subscribers as of December 31, 2004 and offer single adults a private and convenient environment for meeting other singles through their respective websites, as well as through Match.com's affiliated networks.

Match.com provides users with access to other users' personal profiles and also enables a user interested in meeting another user to send e-mail messages to that user through Match.com's double-blind anonymous e-mail system. E-mail recipients respond depending on their interest in the sender. It is free to post a profile on Match.com and to use any of the searching and matching tools available on the site. Match.com charges a subscription fee to users who wish to initiate or respond to e-mails from Match.com members, starting with a single-month term, with discounts for longer term subscriptions.

Match.com has entered into partnerships and strategic alliances with third parties, including the AOL and MSN portals, in order to increase subscriptions in general, as well as to target particular segments of its potential subscriber base and a broader and more diverse online audience. Typically, these partners earn a commission on each customer subscription they sell into the Match.com service.

In April 2002, IAC acquired Soulmates Technology Pty Ltd., or Soulmates, a global online personals group providing dating and matchmaking services in approximately 30 countries worldwide. Using the Soulmates technology platform, Match.com operates 30 localized international dating sites in 18 languages. IAC acquired uDate.com, Inc., a global online personals group that owns and operates *www.udate.com*, in April 2003.

Competition

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

Regulation

Several state legislatures have introduced bills that, if passed into law, would require online dating services such as Match.com to either perform criminal background checks on their subscribers or prominently disclose that they do not perform such background checks. IAC is unable to predict whether any such legislation will be adopted and, if so, the impact such legislation will have on its Personals business.

Interval International

Overview

Interval International, or Interval, is a leading membership-services company providing timeshare exchange and other value-added programs to its timeshare-owning members and resort developers worldwide. As of December 31, 2004, Interval had established contractual affiliations with over 2,000 resorts located in 76 countries and provided timeshare exchange services to nearly 1.7 million timeshare owners. Interval's revenues are generated primarily from fees paid by members in connection with exchange and rental transactions and membership fees.

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

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

As an upgrade to its basic membership program, for an additional annual fee, exchange members can participate in the Interval Gold Program, a value-added, membership enhancement program. The Interval Gold Program provides exchange members with year-round benefits and services, such as hotel, dining and leisure discounts, a concierge service and access to special exchange options, including golf, spa and cruise exchanges. As of December 31, 2004, approximately 35% of Interval's timeshare exchange members were enrolled in the Interval Gold Program.

Interval uses advanced telecommunications systems and technologies to deliver exchange and membership services to its members through call centers and through its website, *www.intervalworld.com*. Interval also makes travel-related products and services available to its members directly and through third party providers, as well as additional services through its website to select exchange members. Exchange members also receive regular publications highlighting Interval's exchange network and specific exchange opportunities and membership benefits and services and, upon confirmation of an exchange, an exchange information pack, which contains details regarding the relevant resort, on-site services and nearby attractions. Interval also provides a comprehensive array of services to the developers of resorts participating in its network, such as sales and marketing support, consulting services and back-office servicing solutions.

Competition

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

Regulation

A number of states require Interval to prepare and file annual disclosure documents regarding its exchange services. In addition, the development of timeshare resorts and the sale of timeshare interests is a heavily regulated industry in the U.S. on a state level, as well as in various jurisdictions abroad. This regulation directly affects the resorts and members that participate in Interval's exchange network, which may affect Interval's business and, in turn, IAC's business. These regulatory regimes are routinely under review and are often the subject of legislation. While Interval closely monitors the content and progress of all such legislation, it is unable to predict whether such legislation will be adopted, when and in what form and, if so, what the impact may be on the members and resorts that participate in Interval's exchange network and/or Interval's business.

Ask Jeeves

Overview

Assuming that IAC completes the Ask Jeeves acquisition, which remains subject to certain closing conditions, Ask Jeeves and the brands it operates will be part of IAC. Ask Jeeves provides information search and retrieval services to search engine users through a diverse portfolio of websites, downloadable applications and distribution networks. Ask Jeeves-branded websites consist of *www.ask.com* in the U.S., *www.ask.co.uk* in the U.K. and *www.ask.jp* (a joint venture) in Japan. On Ask Jeeves-branded websites, search engine users submit queries and Ask Jeeves' proprietary algorithmic search engine, Teoma, responds by generating a list of websites likely to offer relevant and authoritative content. Ask Jeeves' proprietary brands also include three content-rich portals, *www.excite.com, www.iWon.com* and *www.MyWay.com*, and several other search sites.

Ask Jeeves earns revenue primarily by displaying paid listings and other advertisements on its websites. Ask Jeeves also generates revenue by distributing advertisements and search services across two networks of third party websites, the MaxOnline advertising network and the Ask Jeeves syndication network. Ask Jeeves pays fees to network partners in order to reach their users with its advertising and search services. Ask Jeeves proprietary technologies include Teoma, portal technology and ad-serving processes.

Competition

In its efforts to attract search engine users, syndicate search technologies and attract network partners and advertisers, Ask Jeeves competes against operators of destination search sites and search-centric portals, search technology providers and online advertising networks. Ask Jeeves' principal competitors are Google Inc., Microsoft (operator of The Microsoft Network (MSN) portal and provider of MSN Search), Time Warner Inc. (operator of the America Online (AOL) portal) and Yahoo! Inc. (operator of the Yahoo! portal). Ask Jeeves believes that its ability to compete effectively with other search engines and portals for web traffic depends upon, among other things, the relevance and authority of its search results, the ease of use of its search services, the quality of its content, the utility of new and existing features on its websites (and the frequency with which users utilize them) and the speed with which it matches others' innovations.

Regulation

The business model of the *www.iWon.com* portal and certain other products distributed by Ask Jeeves is premised upon the ability to operate sweepstakes, which are subject to the gambling, lottery and disclosure laws of various jurisdictions. Currently, iWon sweepstakes are open to residents of the U.S. and Canada (other than Quebec). Ask Jeeves outsources the operation of certain aspects of its sweepstakes to an independent sweepstakes execution company and believes that its sweepstakes are operated in compliance with current laws and regulations in all applicable jurisdictions. If Ask Jeeves expands its sweepstakes business model internationally, it may be subject to additional international sweepstakes regulation.

Citysearch

Overview

Citysearch is a network of local city guide websites that offer primarily original local content for major cities in the United States and abroad, as well as practical transactional tools. Citysearch city guides provide up-to-date, locally produced information about a given city's arts and entertainment events, bars and restaurants, recreation, community activities and businesses (shopping and professional services), as well as real estate-related and travel information. Citysearch city guides also support online local transactions, including ticketing, hotel reservations, travel and matchmaking through affiliations with leading e-commerce websites, including some operated by IAC brands and businesses. These affiliate partners generally pay Citysearch fees (on a per click or revenue sharing basis, as applicable) for consumer leads sent to their respective websites.

Citysearch revenues are generated primarily through the sale of online advertising, both local and national, and to a smaller extent, from transaction fees from affiliate partners. Local advertising revenues are derived primarily from the sale of advertising through the Pay-For-Performance model, where businesses pay for the number of click-throughs to their respective profile pages on the Citysearch website or their own websites, subject to monthly maximums determined by the business. Citysearch also derives revenues from self-enrollment enhanced listings in search results, targeted electronic mail promotions and targeted sponsorship packages.

Competition

The markets for local content, local services and local advertising are highly competitive and diverse. Citysearch's primary competitors include online providers of local content, numerous search engines and other site aggregation companies, media, telecommunications and cable companies, Internet service providers and niche competitors that focus on a specific category or geography and compete with specific content offerings provided by Citysearch. Many of Citysearch's competitors have greater financial and marketing resources than it has and may have significant competitive advantages through other lines of business and existing business relationships.

Entertainment Publications

Overview

Entertainment Publications is a leading marketer of coupon books, discounts, merchant promotions and Sally Foster Gift Wrap. EPI serves more than 160 major markets and does business with approximately 70,000 local merchants and national retailers representing 225,000 North American locations. EPI's Entertainment Book contains discount offers from local and national restaurants and hotels, leading national retailers and other merchants specializing in leisure activities. Information regarding updated offerings is also available through EPI's website. A unique feature of the Entertainment Book is that it is typically sold in connection with fund-raising events, with a percentage of the sale proceeds from these events retained by schools, community groups and other non-profit organizations. EPI also markets discount membership and packages in published and online formats to consumers via online commerce, direct marketing, corporate and retail channels.

Competition

Entertainment Publications currently competes on a national level with other providers of dining and other discounts, and on a local level with a variety of discount programs distributed via traditional fundraising channels. EPI also competes with, and expects to face increasing competition from, companies that use traditional fundraising channels to distribute products other than local discount or coupon books, such as gift wrap, magazines and chocolates.

Evite

Overview

Evite is primarily a free online invitation service, which currently sends an average of more than 7 million invitations per month. In October 2004, Evite expanded its service offerings to include user specific recommendation platforms (based upon recommendations from a network of people with whom the user has shared an event) for restaurants, bars and clubs and a searchable database of over 50,000 live events, in each case, powered by Citysearch. The event database is provided through relationships with leading ticketing and event services, including Ticketmaster and Active.com. Evite revenues are generated primarily through online advertising and transaction fees generated from sponsorship partners integrated throughout the Evite service.

Competition

Evite competes with a number of online and offline invitation and party planning services, including providers of online greeting cards, web-based invitation services, paper-based invitation services and party planning services. Evite also competes with online and offline social networking services and providers of live event listing information and restaurant, bar and nightlife content.

ServiceMagic

Overview

ServiceMagic is a leading online marketplace that connects consumers with pre-screened, customer-rated home service professionals. IAC acquired ServiceMagic in September 2004. When consumers submit a home service request through the ServiceMagic marketplace, ServiceMagic connects them with home service professionals from its network of over 28,000 customer-rated home service professionals, which collectively provide more than 500 different categories of home service needs, ranging from simple home repairs and maintenance to complete home remodeling projects. ServiceMagic earns revenue primarily from fees paid to ServiceMagic by home service professionals for consumer leads, regardless of whether the home service professional that received the lead ultimately provides the requested service, as well as from one time fees charged to home service professionals upon their enrollment in the ServiceMagic network.

Competition

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

Financial Services and Real Estate

Overview

Financial Services and Real Estate consists of LendingTree and the brands and businesses it operates, collectively referred to in this proxy statement/prospectus as LendingTree. LendingTree's primary businesses are online exchanges that connect consumers and service providers in the lending and real estate industries and offer related services and products. Consumers can access LendingTree's services and products through three channels: LendingTree websites, third party websites and by telephone. See "Risk Factors Risk Factors Relating to IAC's and Expedia's Businesses Following the Spin-Off IAC's businesses depend on their relationships with third party distribution channels, suppliers and advertisers and any adverse changes in these relationships could adversely affect IAC's business, financial condition and results of operations" and " Adverse events or trends in the various industries in which IAC's businesses operate could harm IAC's business, results of operations and financial condition."

Financial Services

LendingTree's lending exchange services encompass most consumer credit categories, including mortgages (in connection with purchases and refinancings), home equity, automobile loans, personal and debt consolidation loans and credit cards. Consumers seeking loan products through a LendingTree channel generally begin the process by completing a simple online request, or qualification form. Consumer information is then automatically compared to the underwriting criteria of participating lenders. Qualified consumers can receive multiple loan offers from participating lenders or LendingTree Loans (as described below) in response to a single request and then compare, review and accept the offer that best suits their needs.

LendingTree generates financial services revenues from fees paid by participating lenders for the transmission of qualification forms that meet their underwriting criteria. Since a given qualification form can be transmitted to more than one participating lender (generally, up to five), LendingTree typically generates multiple transmission fees from the same qualification form. In certain cases, fees are paid to LendingTree when the participating lender who received the qualification form closes a loan with the consumer. LendingTree also generates fees from the sale of loans into secondary markets and borrowers.

In December 2004, LendingTree acquired Home Loan Center, a consumer direct lender now known as LendingTree Loans, which originates, processes, approves and funds mortgage, home equity, refinancing and debt consolidation loans in its own name. LendingTree Loans generally sells closed loans that it funds to investors in the secondary mortgage market. Consumer leads generated by LendingTree's exchanges are directed either to participating lenders or LendingTree Loans. Due to the volume and diversity of consumer leads generated by LendingTree's exchanges, LendingTree believes that it will continue to deliver value to its participating lenders as a cost-effective distribution channel.

Real Estate Services

Consumers interested in working with a real estate professional in connection with the purchase or sale of an existing or newly-constructed home can access LendingTree's real estate-related services online and complete a simple form. In the case of existing home transactions, upon completion of the form the consumer is provided with a choice of local real estate professionals from a nationwide network. Upon selection of a real estate professional, the consumer's information is forwarded to the real estate professional via web-based technology. In the case of newly-constructed homes, LendingTree provides consumers with a coupon that is presented to their new homebuilder, registering a LendingTree brand as the real estate broker of record. In all cases, if the consumer and the real estate professional agree to work together, the remainder of the transaction is completed locally and in certain cases, the consumer may be eligible for rebates and promotional incentives.

LendingTree generates real estate revenues from cooperative brokerage fees when the transmission of consumer information to the real estate professional results in the purchase or sale of a home, upon the transmission of consumer information to a participating real estate professional or in advance for the right to receive leads on a recurring basis over pre-determined time periods. In the case of consumer leads provided to new homebuilders, LendingTree earns a real estate commission when the consumer and the builder close a transaction.

Competition

In the case of lending-related services, LendingTree competes with traditional offline lending institutions and financial service companies, as well as with online lenders (including traditional offline lending institutions that have developed their own stand-alone online lending channels) that originate the bulk of their loans through their own websites or the telephone. These companies typically operate branded websites and attract consumers via online banner ads, key word placement on search engines, partnering with affiliates and business development arrangements with other properties, including major portals. In the case of real estate-related services, LendingTree competes with traditional offline real estate companies, as well as websites that provide online real estate referral services for a fee and websites that offer real estate broker lists without related services and customer support.

Regulation

Services available through LendingTree's brands and businesses are subject to extensive regulation by various federal, state and in some instances, local, governmental authorities.

Most states require licenses to solicit, broker or make loans secured by residential mortgages and other consumer loans to residents of those states. In addition, LendingTree is required to obtain real estate broker licenses in numerous states to operate its real estate referral services.

Some states have regulations that prohibit real estate brokers from providing consumers with a rebate or other incentives in connection with a real estate transaction. Additional states could promulgate similar regulations or interpret existing regulations in a way that limits the ability of LendingTree's real estate exchanges to offer consumer incentives, thereby limiting the attractiveness of this service to consumers.

Federal law, such as the Real Estate Settlement Procedures Act, or RESPA, generally prohibits the payment or receipt of referral fees and fee shares or splits in connection with residential mortgage loan transactions. The applicability of referral fee and fee sharing prohibitions to the lender, realty services, advertising, marketing, distribution and cyberspace rental arrangements used by online companies like LendingTree may have the effect of reducing the types and amounts of fees that LendingTree may charge or pay in connection with real estate-secured loan products, including mortgage brokerage, lending services and real estate brokerage. Notwithstanding these prohibitions, RESPA permits payments for facilities furnished or for services actually performed, so long as the total of those payments bears a reasonable relationship to the market value of such facilities or services. A separate exception exists for cooperative brokerage fees exchanged between real estate brokers. Although LendingTree believes that it has structured its mortgage and real estate referral operations to comply with RESPA, there can be no assurances that the relevant regulatory agency will not take a contrary position.

Teleservices

Overview

PRC provides outsourced customer lifecycle management solutions, both domestically and internationally, to a diversified portfolio of companies. PRC uses its industry-specific business process expertise and enabling technologies to support the brand experience and customer relationship management strategies of its clients. PRC's integrated solutions include inbound (customer-initiated) and outbound teleservices, e-commerce customer care services, information technology (including its proprietary Customer Relationship Management technology), database marketing and management and fulfillment services. PRC provides its clients with a cost-effective and efficient method for managing their growing customer service and marketing needs. PRC also offers a wide variety of information technology services, including the formulation and design of teleservicing and electronic applications, programming and demographic profiling, in each case, on a customized basis.

PRC's primary source of revenue is its customer care activities, which consist primarily of inbound and outbound teleservicing, as well as other activities, such as direct communication with customers via e-mail, fax, letter and online chat/IP telephony, all of which involve direct communication with consumers. The majority of PRC's revenues are derived from inbound teleservicing, which consists of longer-term customer care and customer service programs that tend to be more predictable than other teleservicing revenues.

Competition

The customer care industry is very competitive and highly fragmented. Competitors range in size from very small firms offering specialized applications and short-term projects, to large independent and international firms and the in-house operations of many clients and potential clients, which comprises the largest segment of the teleservices industry. In addition, PRC competes with large technology and consulting firms.

Regulation

The industries served by PRC are subject to varying degrees of government regulation, including state qualification and licensing requirements. PRC works closely with its clients and their advisors to develop the scripts to be used by PRC personnel in making customer contacts and to comply with any state qualification and/or licensing requirements for eligibility to perform services for clients. PRC generally requires its clients to indemnify PRC against claims and expenses arising out of the client's business activities.

PRC's customer care activities involve direct communication with consumers and are subject to extensive regulation by federal and state regulatory authorities including, the Telemarketing and Consumer Fraud and Abuse Prevention Act and the Telephone Consumer Protection Act. Regulations promulgated pursuant to this legislation prohibit the use of automatic telephone dialing systems, artificial and prerecorded messages and telephone facsimile machines to send unsolicited advertisements, as well as deceptive and abusive telemarketing practices. These regulations also control the timing of telemarketing calls and require that certain disclosures be made to consumers at both the outset of telemarketing transactions and prior to obtaining payment information. These regulations also authorized the creation and enforcement of the National Do Not Call Registry. Telemarketers are prohibited from calling consumers who place their number on the National Do Not Call Registry unless there is a pre-existing business relationship between the seller and the consumer.

IAC Regulation

IAC's businesses market and provide a broad range of goods and services through a number of different online and offline channels. As a result, IAC is subject to a wide variety of statutes, rules, regulations, policies and procedures in various jurisdictions in the United States and abroad, which are subject to change at any time. While many of these statutes, rules, regulations, policies and procedures are applicable to several IAC businesses, such as consumer protection and privacy laws (among others), certain of these statutes, rules, regulations, policies and procedures are industry-specific or more relevant to a particular IAC business, and as such, are as described above.

IAC businesses with an online component must comply with laws and regulations applicable to the Internet and businesses engaged in online commerce. An increasing number of existing and proposed laws and regulations apply directly to the Internet and commercial online services. For example, e-mail activities are subject to the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or the CAN-SPAM Act. The CAN-SPAM Act regulates the sending of unsolicited, commercial electronic mail by requiring the sender to: (i) include an identifier that the message is an advertisement or solicitation if the recipient did not expressly agree to receive electronic mail messages from the sender, (ii) provide the recipient with an online opportunity to decline to receive further commercial electronic mail messages from the sender and (iii) list a valid physical postal address of the sender. The CAN-SPAM Act also prohibits predatory and abusive electronic mail practices and electronic mail with deceptive headings or subject lines.

In addition, there is currently uncertainty whether or how existing laws governing issues such as sales and other taxes, libel and privacy apply to the Internet and commercial online services. It is possible that existing laws and regulations may be amended, or new laws and regulations may be adopted to address these and other issues. IAC cannot predict whether applicable jurisdictions will amend or enact such laws or regulations and what effect, if any, such laws or regulations would have on its business, financial condition or results of operations. For example, the issue of consumer privacy has received substantial attention from federal, state and foreign governments. This attention has resulted in the enactment of certain laws and regulations, and the consideration of many other proposals, to safeguard consumer privacy. Pending proposals vary substantially, and it is uncertain which, if any, may become law. Some proposals would require companies that sell the same product both online and offline to treat customer information obtained in such transactions differently depending upon the sales medium used. Some proposals would allow companies to use customer information for various purposes, provided that consumers are given a choice and do not "opt out" of such uses, while other proposals would prohibit such uses unless consumers are given a choice and explicitly authorize such uses by "opting in."

IAC Intellectual Property Rights

IAC and its businesses regard their intellectual property rights, including their service marks, trademarks and domain names, copyrights, trade secrets and similar intellectual property, as critical to IAC's success. IAC's businesses also rely heavily upon software codes, informational databases and other components that make up their products and services.

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

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

IAC and its businesses have considered, and will continue to consider, the appropriateness of filing for patents to protect future inventions, as circumstances may warrant. However, many patents protect only specific inventions and there can be no assurance that others may not create new products or methods that achieve similar results without infringing upon patents owned by IAC and its businesses.

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

Employees

As of December 31, 2004, IAC and its subsidiaries employed approximately 21,600 full-time employees across its various businesses. IAC believes that it generally has good employee relationships, including relationships with employees represented by unions or similar organizations.

Properties

IAC believes that the facilities for its management and operations are generally adequate for its current and anticipated future needs. IAC's facilities, most of which are leased, generally consist of executive and administrative offices, fulfillment facilities, warehouses, operations centers, call centers, data centers, television production and distribution facilities, satellite transponder sites and sales offices.

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

IAC leases approximately 45,550 square feet for its principal executive offices at Carnegie Hall Tower, 152 West 57th Street, New York, New York, 10019, which lease expires on April 30, 2007. IAC's domestic businesses and operations lease space in various cities and locations in: California, Colorado, Washington, D.C., Florida, Illinois, Iowa, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Texas and Virginia. IAC, through HSN U.S., also owns warehouse facilities and an approximately 480,000 square foot facility in Florida that houses television studios, broadcast facilities, administrative offices and training facilities, as well as fulfillment centers in Iowa, Tennessee and Virginia and one call center in Florida, through PRC.

IAC's international businesses and operations lease space in various cities and locations in: Australia, Canada, Denmark, Finland, France, Germany, Ireland, the Netherlands, Norway, Sweden and the United Kingdom.

Information about Expedia after the Spin-Off

The following disclosure regarding Expedia's businesses assumes the completion of the spin-off.

For information regarding the results of operations of Expedia on a historical basis, see the Historical Combined Financial Statements of Expedia attached as Annex D to this proxy statement/prospectus and the disclosure set forth under the caption " Management's Discussion and Analysis of Financial Condition and Results of Operations of Expedia." For information regarding the results of operations of Expedia on a pro forma basis to give effect to the completion of the spin-off, see the Unaudited Pro Forma Condensed Combined Financial Statements for Expedia attached as Annex C to this proxy statement/prospectus.

Description of Business

Overview

Expedia is among the world's leading travel services companies, making travel products and services available to leisure and corporate travelers in the United States and abroad through a diversified portfolio of brands, including Expedia.com, Hotels.com, Hotwire, Expedia Corporate Travel, Classic Custom Vacations and a range of other domestic and international brands and businesses.

Expedia brands and businesses make available a wide selection of travel products and services, from simple, discounted travel to more complex, luxury travel. Expedia's various brands and businesses target the needs of different consumers, including those who are focused exclusively on price and those who are focused on the breadth of product selection and quality of services. Through its differentiated brands and businesses, Expedia helps a broad range of leisure and corporate travelers research, plan and book travel.

Expedia makes available travel products and services primarily through its wholly-owned, branded websites, as well as through branded websites owned and operated by joint ventures and other companies in which Expedia has made investments. Expedia also makes available travel products and services through its private label program, through which it indirectly makes available travel products and services to customers through third party websites, as well as through traditional offline channels, including full-service telephone booking agents, onsite travel agents working at various corporate customer locations and in-destination Expedia!fun travel desks. Expedia also includes TripAdvisor, a comprehensive online travel search engine and directory.

Expedia makes its travel products and services available on a stand-alone and package basis primarily through two separate business models, the merchant model and agency model. See " Merchant and Agency Business Models." In 2004, merchant gross bookings and agency gross bookings were approximately $5.7 billion and $7.5 billion, respectively. Expedia also derives revenue from advertising and promotional activities across its branded websites.

To ensure the success of its leisure and corporate travel businesses, Expedia has made substantial investments in technology and believes that innovation is a long-term competitive advantage, both in consumer- and supplier-oriented technology.

History

Expedia, Inc., a Delaware corporation, was incorporated in connection with the spin-off in April 2005 to hold IAC's travel and travel-related businesses, subsidiaries and investments (other than Interval International and TV Travel Shop) and TripAdvisor.

Prior to the announcement of the spin-off, IAC acquired, as well as made significant investments (directly and through its travel businesses) in several travel and travel-related businesses that are now part of Expedia, certain of which are as follows:

In May 1999, IAC acquired substantially all of the assets and assumed substantially all of the liabilities of two entities that operated Hotel Reservations Network, since renamed Hotels.com. Hotels.com completed its initial public offering in March 2000, in connection with which IAC retained a majority ownership stake;

In February 2002, IAC acquired a controlling interest in Expedia, Inc., a Washington corporation (through which Expedia.com was then, and is currently, operated and managed), from Microsoft Corporation;

In June 2003, IAC acquired all of the outstanding capital stock of Hotels.com that it did not already own, and in August 2003, IAC acquired all of the outstanding capital stock of Expedia, Inc., the Washington corporation, that it did not already own, after which these businesses became wholly-owned subsidiaries of IAC;

In October 2003, IAC acquired *www.anyway.com*;

In November 2003, IAC acquired Hotwire;

In March 2004, IAC acquired *www.egencia.com*, now Expedia Corporate Travel Europe;

In April 2004, IAC acquired TripAdvisor; and

In August 2004, IAC made an initial investment in eLong, and in January 2005, acquired a majority ownership stake.

Prior to becoming subsidiaries of IAC, each of these businesses acquired certain travel businesses that were subsequently incorporated into their respective operations, including, in the case of Expedia.com, Travelscape, a merchant hotel business, Metropolitan Travel, a domestic corporate travel business, and Classic Custom Vacations, a luxury travel packaging business.

Portfolio of Brands and Businesses

Expedia has created an easily accessible global travel marketplace that is used by a broad range of leisure and corporate consumers and travel agents. This marketplace allows customers to research, plan and book travel products and services from travel suppliers and allows these travel suppliers to efficiently reach and provide their products and services to Expedia customers. Through its diversified portfolio of domestic and international brands and businesses, Expedia makes available, on a stand-alone and package basis, travel products and services provided by numerous airlines, lodging properties, car rental companies, cruise lines and destination service providers, such as attractions and tours. Using a portfolio approach for Expedia's brands and businesses allows it to target a broad range of customers looking for different value propositions. A description of Expedia's principal brands and businesses appears below.

Expedia.com. Expedia.com makes a large variety of travel products and services available directly to consumers through its U.S.-based website, *www.expedia.com*, as well as through localized versions of its website in Canada, France, Germany, Italy, the Netherlands and the United Kingdom, many of which are leading online travel service companies in their respective country. Through Expedia.com, Expedia also operates *www.anyway.com*, a leading online travel company in France. Expedia.com-branded websites also serve as the travel channel on MSN.com, Microsoft's online services network in the United States, as well as certain international MSN sites. See " Marketing." Expedia.com-branded websites target many different types of consumers, from families booking a summer vacation to individual travelers arranging a quick weekend getaway. Consumers can search for, compare information about (including pricing and availability) and book travel products and services on Expedia.com-branded websites, including airline tickets, lodging, car rentals, cruises and many destination services, such as attractions and tours, from a large number of suppliers, on a stand-alone and package basis.

Hotels.com. Hotels.com makes available a large variety of lodging options to customers, who can plan, shop for and book lodging accommodations, from traditional hotels to vacation rentals, at over 15,000 properties worldwide. Hotels.com seeks to provide customers with premium content through its U.S.-based website, *www.hotels.com* (as well as localized versions in the Americas, Europe, Asia-Pacific and South Africa), its vacation rentals website at *www.vacationspot.com* and its toll-free call centers. Hotels.com is pursuing a strategy focused on differentiating its service offerings by positioning itself as a hotel expert with premium content about lodging properties, while simultaneously moving away from its historical focus solely on discount pricing.

Hotwire.com. Hotwire.com is a leading discount travel website that makes available airline tickets, hotel rooms, rental cars, cruises and vacation packages. Hotwire's opaque approach matches the needs of two groups: price-sensitive consumers willing to be flexible to save money and suppliers who have excess seats, rooms and cars they wish to fill without affecting the public's perception of their brands. Hotwire customers enjoy significant discounts by electing to book travel services "opaquely," without knowing certain itinerary details such as brand, time of departure and exact hotel location, while suppliers create value from excess inventory without diluting their core brand-loyal customer base. Hotwire works with many domestic and international airlines, including the U.S. full-service major network airlines, top hotels in hundreds of cities and resort destinations in the U.S., Europe, Canada, Mexico and the Caribbean and major car rental companies nationwide.

WWTE. WWTE, Expedia's private label program, is used to make travel products and services available to consumers through third party company-branded websites via Expedia's industry leading technology platform. The private label program, which is a low risk, cost-effective way for Expedia to enter new markets in the United States and abroad, enables Expedia to cover many more markets than is possible by setting up full-scale websites, which requires significant investment in technology and personnel. The products and services made available through WWTE websites are a subset of those made available on Expedia.com-branded websites. Expedia pays participants in the WWTE private label program on a revenue-share basis. Expedia also has a growing international private label business.

Classic Customs Vacations. Classic Customs Vacations or CCV, makes premium custom Hawaiian, Mexican, Caribbean and European travel packages available principally to a network of travel agents throughout the United States. Travel agents shopping for premium custom vacation packages for their customers can obtain such packages through the CCV team of telesales professionals. Customers can preview these packages directly through CCV's websites, *www.classiccustomvacations.com* and *www.classicvacations.com.*

Expedia!fun. Expedia!fun is a network of in-destination travel desks located at hotels and resorts in Florida, Hawaii and Mexico that offer travelers the opportunity to obtain tours, attractions, airport transfer services and other travel-related services. Expedia entered the destination services market through its acquisition of Activity World, a Hawaiian destination service provider, in 2004, and recently expanded its travel desk business with the 2005 acquisition of Premier Getaways, a destination service provider in Florida.

Expedia Corporate Travel. Expedia Corporate Travel is a full-service, travel management company that makes travel products and services available to corporate customers in the U.S. and in Europe. Expedia Corporate Travel is growing globally, and in 2004 established Expedia Corporate Travel Europe, which includes *www.egencia.com* and World Travel Management, which were acquired in March 2004 and August 2004, respectively. Expedia Corporate Travel provides, among other things, centralized booking tools for employees of its corporate customers, support of negotiated airfares and consolidated reporting aimed at small- and mid-sized businesses. Expedia Corporate Travel charges corporate client companies sign-up and set-up fees, as well as transactional fees for making or changing bookings. In addition, Expedia Corporate Travel provides on-site agents to some corporate clients in order to support the related account.

TripAdvisor. TripAdvisor is a comprehensive online travel search engine and directory that aggregates unbiased articles, guidebook reviews and user comments on cities, hotels and activities in a variety of given destinations from a number of online sources. In addition to travel-related information, TripAdvisor's destination-specific search results provide links to the websites of TripAdvisor's travel partners (travel service providers and marketers) through which consumers can make related travel arrangements.

International Opportunities and Investments

Expedia leverages its established brands and businesses to enter markets with large existing travel markets and established consumer behavior for planning and purchasing travel. Expedia reaches many customers in several countries and multiple continents through the brands and businesses described above. Expedia typically customizes international points of sale to reflect local language, currency, customs, traveler behavior and preferences and local hotel markets, all of which may vary from country to country. Expedia intends to continue to expand its international presence.

Expedia believes that Europe presents an especially large opportunity for its brands and businesses. Europe is more populous than the U.S. and, with more generous vacation policies by employers, Europeans generally take more frequent and longer vacations than do Americans. European hotel markets are more fragmented than U.S. hotel markets, and therefore, Expedia believes that it is more difficult for European hotels to reach their customers through traditional marketing initiatives than for U.S. hotels. Expedia believes that its ability to deliver the targeted marketing characteristics of the Internet increases the value it can bring to travel suppliers in Europe and elsewhere.

In addition to expanding its brands and businesses into foreign markets, Expedia also makes investments in travel and travel-related businesses abroad. For example, through Expedia.com, Expedia is party to a joint venture with Société Nationale des Chemins de Fer Français (SNCF), the state-owned railway group in France, which operates *www.voyages-sncf.com*, a leading online site for e-tourism in France. SNCF and Expedia (through Expedia.com) own 50.1% and 49.9% of the joint venture, respectively.

Expedia has also expanded into the Asia-Pacific region, where travel markets are growing. As part of its expansion into Asia-Pacific, Expedia currently holds approximately 52% of the outstanding capital stock (on a fully diluted basis) of eLong, Inc. (NASDAQ:LONG), or eLong. This stake represents approximately 96% of the total voting power of eLong. eLong is an independent travel service company headquartered in Beijing with a national presence across China. eLong uses web-based distribution technologies and a 24-hour nationwide call center to provide consumers with consolidated travel information and the ability to access hotel reservations at discounted rates at over 2,600 hotels in major cities across China. eLong offers air ticketing and other travel related services, such as rental cars, vacation packages and corporate travel services.

Merchant and Agency Business Models

Expedia, through its various brands and businesses, makes travel products and services available on a stand-alone and package basis, primarily through two separate business models: the merchant model and the agency model. Under the merchant model, Expedia facilitates the booking of hotel rooms, airline seats, car rentals and destination services from its travel suppliers and is, for such bookings, the merchant of record. Acting as the merchant of record enables Expedia to achieve a higher level of net revenues per transaction, promote additional services for its travel suppliers and generally provide lower prices to consumers as compared to those provided through the agency model. Merchant revenues are recognized when the customer uses the travel product or service, as opposed to when the travel product or service is booked. In the case of merchant transactions, Expedia generally has certain latitude to establish and change prices charged to customers (as compared to agency transactions). The merchant model provides travel suppliers a cost-efficient way (as compared to traditional marketing initiatives) to increase the marketing and promotion of their brands. Merchant revenues are derived from the difference between amounts paid to the travel suppliers and the amounts paid by the consumer.

Under the agency model, Expedia acts as an agent in the transaction, passing reservations booked by its customers to the relevant airline, hotel, car rental company or cruise line. Expedia receives a commission or ticketing fee from the travel supplier for its services under the agency model. In the case of agency airline transactions, Expedia also receives fees from global distribution systems partners, or GDSs, which control the computer systems through which air travel reservations are booked, in addition to any commissions or ticketing fees paid by travel suppliers. In agency transactions, the travel supplier sets the price paid by the consumer and the travel supplier appears as the merchant of record for the transaction. Agency revenues are derived primarily from commissions and ticketing fees from travel suppliers, revenues from GDSs and fees from leisure and corporate customers and are recognized at the time the reservation is booked. Fees from leisure and corporate customers include (i) service fees, which are charged in connection with most bookings on U.S. and some international websites, (ii) fees for processing and delivery of paper airline tickets via express mail and (iii) corporate transaction service fees for travel booking services provided to corporate customers.

Through Expedia-branded websites, customers can dynamically assemble multiple component travel packages in a single transaction at a savings as compared to booking each component separately. Packages assembled by customers through the dynamic packaging model on Expedia-branded websites include at least one major merchant air, car or hotel component. Customers select packages based on the total package price, without being provided component pricing. The use of the merchant travel components in packages enables Expedia to make certain travel products available at prices lower than those charged on a per component basis by travel suppliers without impacting their established pricing and positioning models.

Relationships with Travel Suppliers and Distribution Partners

Overview. Expedia makes travel products and services available from a variety of large and small commercial and charter airlines, lodging properties, major car rental companies and cruise lines and in-destination service providers. Expedia seeks to build and maintain long-term, strategic relationships with these travel suppliers that have the mutual objective of shared success, as well as build additional strategic relationships with other travel suppliers and GDS partners. An important component of the success of Expedia's business depends on its ability to maintain its existing, as well as build new, relationships with travel suppliers and GDS partners.

Benefits to Travel Suppliers. Expedia strives to deliver value to its travel suppliers through a wide range of innovative, targeted merchandising and promotional strategies designed to increase their revenues, while simultaneously reducing their marketing transaction and customer service costs.

Expedia maintains a supplier relations team, which consists of a staff of account executives and market managers who work directly with travel suppliers to increase the marketing of their travel products through Expedia's brands and businesses.

In addition, Expedia has developed proprietary, supplier-oriented technology that streamlines the interaction between some of its websites and hotel property management systems, making it easier and more cost-effective for hotels to manage reservations made through certain Expedia brands and businesses. Through "direct connect" technology, hotels can upload information about available products and services and rates directly from their central reservation systems into certain Expedia websites, as well as automatically confirm hotel reservations made by Expedia customers. In the absence of direct connect technology, both of these processes are generally completed manually. There are currently more than one thousand hotels in North America that have adopted direct connect technology and Expedia expects that this number will increase in the future.

Travel Supplier and Distribution Partner Revenues. A portion of Expedia's agency revenues are derived from compensation paid by travel suppliers and GDS partners for bookings made through Expedia's websites. Expedia generally negotiates these commissions and fees with its travel suppliers and GDS partners. Over the last several years travel suppliers have generally reduced or eliminated commissions and payments to travel agents and other travel intermediaries.

Industry and Competition

Expedia's brands and businesses compete in rapidly evolving and intensely competitive markets. According to industry sources, combined global travel sales (for the United States, Europe and the Asia Pacific region) in 2004 were approximately $875 billion, approximately $90 billion of which were transacted online. Combined travel sales for Europe and the Asia Pacific region in 2004 were approximately $529 billion, approximately $33 billion of which were transacted online. Industry sources predict that online travel sales in Europe and the Asia Pacific region will grow by as much as approximately 40% over the next several years. The relatively low percentage of total travel sales transacted online in international markets indicates that these markets represent especially large opportunities for Expedia and those of its competitors that wish to expand their brands and businesses abroad.

Expedia's competitors include online and offline travel companies that target leisure and corporate travelers, travel supplier direct websites and other channels, consolidators and wholesalers of travel products and services and other companies offering travel search engines, content or advice, in each case, on a local, regional, national and/or international basis.

Expedia believes that maintaining and enhancing its brands is a critical component of its efforts to compete with its competitors. Expedia's brands and businesses differentiate themselves from competitors primarily on the basis of quality and breadth of travel products made available, channel features and usability, price, customer service and quality of travel planning content and advice. The emphasis on one or more of these factors varies, depending on the brand or business and the related target demographic.

Expedia's brands and businesses face competition from travel supplier direct websites. In some cases, supplier direct channels offer advantages to customers, such as loyalty programs or lower transaction fees. Expedia believes that its websites, which feature travel products and services from numerous travel brands (as opposed to a single brand), have greater appeal in the case of brand-agnostic customers, a much larger demographic than brand-loyal customers.

Expedia's business is generally sensitive to changes in the competitive landscape, including the emergence of new competitors, most recently, the travel meta-search engine. Travel meta-search engines aggregate pricing and other information from other travel websites, and present this information in the form of consolidated, comparative search results to their users. Consumers can purchase travel products and services directly from travel suppliers by clicking-through to their branded websites through search results or links posted on the travel meta-search engine. TripAdvisor competes with other travel search engine companies and traditional offline travel directories.

Some of Expedia's competitors may be able to make products and services from travel suppliers available on more favorable terms based on a variety of factors, including their willingness to accept lower revenues, better relationships with suppliers and their vertical integration with GDSs and/or travel suppliers. Expedia expects its current and future competitors to continually revise and improve their business models. Travel product and service providers that work with Expedia and its online competitors may introduce pricing or other business changes that could adversely affect Expedia's attractiveness to travel suppliers.

Marketing

Expedia's marketing programs, initiatives and related spending accrue to the primary goals of building and maintaining individual brand propositions across its portfolio of brands, driving traffic and conversion through its various brands and businesses, lowering ongoing customer acquisition costs, increasing market share and strategically positioning its various brands and businesses in relation to one another. The long-term success of Expedia depends on its continued ability to increase the overall number of customer transactions in a cost-effective manner.

Expedia's marketing programs and initiatives primarily include direct and/or personalized customer communications, search engine marketing and online and offline advertising. In addition, the Expedia-branded websites operate the travel channel on the MSN.com website in the U.S. and MSN websites in Canada, the United Kingdom, Italy, France and Germany. The related MSN contract continues through June 2005. Expedia is currently negotiating the renewal of this agreement with Microsoft. However, no assurances can be provided that Expedia will be able to renew the agreement on acceptable terms, if at all.

Expedia also makes use of affiliate marketing. The Expedia.com and Hotels.com-branded websites receive bookings from consumers who have clicked- through to the respective websites through links posted on affiliate partner websites through affiliate programs, including the Interactive Affiliate Network, or *IAN.com*. As of December 31, 2004, Expedia had affiliation agreements with thousands of third party affiliate partners, including a number of leading travel companies, pursuant to which it pays affiliate partners a commission for bookings originated from their websites. Affiliate partners can make travel products and services available through an Expedia-branded website, a co-branded website or their own private label website. Expedia also provides its affiliates with industry-leading technology and access to a wide range of products and services.

Expedia Regulation

Expedia must comply with laws and regulations relating to the travel industry and the provision of travel services, including registration in various states as "sellers of travel" and/or vacation clubs and compliance with certain disclosure requirements and participation in state restitution funds. In addition, Expedia businesses are subject to regulation by the U.S. Department of Transportation and must comply with various rules and regulations governing the provision of air transportation, including those relating to advertising and accessibility.

Expedia is currently subject and, as Expedia continues to expand the reach of its brands and businesses into the European, Asia-Pacific and other international markets, will become increasingly subject, to laws and regulations applicable to travel agents in those markets, including laws regulating the provision of travel packages and industry specific value-added tax regimes. For example, the EEC Council Directive on Package Travel Package Holidays and Package Tours imposes various obligations upon marketers of travel packages, such as disclosure obligations to consumers and liability to consumers for improper performance of the package, including supplier failure. Laws applicable to travel agents in these markets are subject to change at any time and authorities in these markets are regularly considering new legislation, as well as changes in the application of existing laws and regimes applicable to travel agents and the travel industry.

Expedia Intellectual Property Rights

Expedia has developed innovative, robust technology to power its global travel marketplace. For example, the Expert Searching and Pricing Platform, or ESP Platform, which is used by Expedia-branded websites, is an industry leading platform that includes two components: (1) a fare-searching engine that enables broader and deeper airline fare and schedule searches and (2) a common database platform that allows Expedia-branded websites and their customers to bundle diverse types of travel services together dynamically, which further enhances the ability of Expedia-branded websites to cross-market and package travel inventory. The ESP Platform has been an important contributor to Expedia's emergence as one of the largest online packagers of travel. Another core technology advantage is Expedia's best fare search technology. This technology essentially deconstructs the segment feeds from GDS partners for air tickets and recommends the best way to re-assemble multi-leg itineraries so that they are less expensive and more flexible for the customer.

Expedia regards its intellectual property rights, including its patents, service marks, trademarks and domain names, copyrights, trade secrets and similar intellectual property, as critical to its success. For example, Expedia relies heavily upon the software code, informational databases and other components that make up its travel planning service, all of which are protected by copyrights, patent applications and registrations.

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

Expedia has registered and continues to apply to register, or secure by contract when appropriate, its trademarks and service marks as they are developed and used, and reserves and registers domain names as it deems appropriate. While Expedia vigorously protects its trade and service marks and domain names, effective trademark protection may not be available or may not be sought by Expedia in every country in which it makes products and services available, and contractual disputes may affect the use of marks governed by private contract. Similarly, not every variation of a domain name may be available or be registered by Expedia, even if available. The failure to protect Expedia's intellectual property in a meaningful manner or challenges to Expedia's contractual rights could materially adversely affect its business, result in erosion of its brand names and limit its ability to control marketing on or through the Internet using its various domain names.

Expedia has considered, and will continue to consider, the appropriateness of filing for patents to protect future inventions, as circumstances may warrant. However, many patents protect only specific inventions and there can be no assurance that others may not create new products or methods that achieve similar results without infringing upon patents owned by Expedia.

From time to time, Expedia may be subject to legal proceedings and claims in the ordinary course of its business, including claims of alleged infringement by Expedia of the trademarks, copyrights, patents and other intellectual property rights of third parties. In addition, litigation may be necessary in the future to enforce the intellectual property rights of Expedia, protect its trade secrets or to determine the validity and scope of proprietary rights claimed by others. Any such litigation, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could materially harm Expedia's business.

Employees

As of December 31, 2004, Expedia and its subsidiaries employed approximately 4,400 full-time employees across its various businesses. Expedia believes that it generally has good employee relationships.

Properties

Expedia leases approximately 339,000 square feet for its headquarters in Bellevue, Washington, pursuant to leases with expiration dates ranging from June 2007 to February 2010. Expedia leases space for its domestic operations in various cities and locations in California, Florida, Hawaii, Idaho, Michigan, Missouri, Nevada, New York, Texas and Washington.

Expedia leases space for its international operations in various cities and locations in Australia, Belgium, Canada, China, France, Germany, Italy, Japan, Mexico, the Netherlands, Spain and the United Kingdom.

Legal Proceedings

In the ordinary course of business, Expedia 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 Expedia 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 Expedia's shareholders, regardless of whether any of these matters may be material to the financial position or operations of Expedia based upon the standard set forth in the SEC's rules.

All of the litigation matters described below, which were commenced prior to the formation of Expedia, involve the activities of and/or information concerning one or more of Expedia's businesses. In certain of these litigation matters, IAC and/or its current and certain former directors and officers have been named as defendants, which litigation matters are referred to herein as the IAC/Expedia Litigation Matters. In connection with the spin-off, Expedia and IAC have agreed to certain indemnification arrangements relating to the IAC/Expedia Litigation Matters. For a description of these indemnification arrangements, see "The Spin-Off Proposal Relationship Between IAC and Expedia After the Spin-Off Separation Agreement."

For purposes of the litigation-related disclosure set forth immediately below, the term Expedia refers to Expedia, Inc., the Washington corporation, through which Expedia.com has historically been, and is currently, operated and managed.

Securities Class Action Litigation against IAC. On September 20, 2004, a purported shareholder class action, *Steven Malasky, on Behalf of Himself and All Others Similarly Situated v. IAC/InterActiveCorp et al.*, No. 04 Civ. 7447, was commenced in the United States District Court for the Southern District of New York against IAC, certain of its officers, and one outside director, alleging violations of the federal securities laws. Thereafter, eleven other such lawsuits containing substantially similar allegations were filed in the same court. The complaints in these cases generally allege that the value of IAC common stock was artificially inflated by statements about its financial results and forecasts, made prior to its August 4, 2004 announcement of its earnings for the second quarter of 2004, that were false and misleading due to the defendants' alleged failure to disclose various problems faced by IAC's travel businesses.

In rulings on December 20, 2004 and March 7, 2005, the district court consolidated the twelve lawsuits into a single action captioned *In re IAC/InterActiveCorp Securities Litigation*, appointed co-lead plaintiffs, and designated co-lead counsel. On May 20, 2005, the plaintiffs filed a consolidated amended complaint naming as defendants IAC, three of its officers, one former officer, six directors, three former directors, and one former officer of Expedia. The amended complaint contains factual allegations substantially similar to the allegations in the initial complaints, purports to assert claims under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, Section 20(a) of the Exchange Act, and Sections 11 and 15 of the Securities Act of 1933, and seeks damages in an unspecified amount. The plaintiffs seek to represent a class of shareholders who purchased shares of IAC common stock between March 31, 2003 and August 3, 2004. IAC intends to defend vigorously against this lawsuit.

On October 18, 2004, a related shareholder derivative action, *Stuart Garber, Derivatively on Behalf of IAC/InterActiveCorp v. Barry Diller et al.*, No. 04-603416, was commenced in the Supreme Court of the State of New York (New York County) against IAC's directors and certain officers. IAC is a nominal defendant. This action is based on similar factual allegations as the federal securities class action described above. The complaint alleges, among other things, that the director defendants breached their fiduciary duties by failing to exercise their oversight responsibilities to ensure the integrity of IAC's business practices, financial reporting, and public statements. The complaint also purports to assert claims for misappropriation of confidential information for personal profit, contribution and indemnification. The complaint seeks damages in an unspecified amount and restitution of all remuneration paid by IAC to the individual defendants during the period of the alleged breach of duty.

On November 15, 2004, a second related shareholder derivative action, *Lisa Butler, Derivatively on Behalf of IAC/InterActiveCorp v. Barry Diller et al.*, No. 04 Civ. 9067, was filed in the United States District Court for the Southern District of New York against IAC's current directors and certain former directors of IAC. IAC is a nominal defendant. The action is based on similar factual allegations as the federal securities class action and the other shareholder derivative suit described above. The complaint purports to assert claims for violation of Section 14(a) of the Exchange Act, breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. The complaint seeks an order voiding the election of IAC'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 IAC.

On January 24, 2005, the federal district court consolidated the *Butler* shareholder derivative suit with the consolidated securities class action for pre-trial purposes only. On February 2, 2005, the defendants in the *Garber* shareholder derivative suit removed the case from New York state court to the United States District Court for the Southern District of New York. On April 11, 2005, the district court consolidated the *Garber* derivative suit with the securities class action for pre-trial purposes only. On June 3, 2005, the district court designated co-lead plaintiffs' counsel in the derivative cases and directed that a consolidated amended derivative complaint be filed by July 6, 2005.

Litigation Relating to the IAC/Hotels.com Merger Agreement. On April 10, 2003, the day of the announcement of the IAC/Hotels.com merger agreement, a purported class action on behalf of Hotels.com shareholders was filed in the Delaware Chancery Court against Hotels.com, IAC, and members of the board of directors of Hotels.com. *See Michael Garvey, on Behalf of Himself and All Others Similarly Situated v. Jonathan F. Miller et al.*, No. 20248-NC (New Castle County). Also on April 10, 2003, the plaintiff in a purported shareholder derivative action on behalf of Hotels.com against certain officers and directors of Hotels.com, which was pending in Texas state court prior to the announcement of the merger transaction and had originally asserted derivative claims relating to Hotels.com's pre-merger earnings guidance (which claims are described more fully in a separate section below), filed an amended complaint to include class allegations regarding the merger transaction. *See Alex Solodovnikov, Derivatively on Behalf of Hotels.com v. Robert Diener et al.*, No. 03-02663 (District Court, 160th Judicial District, Dallas County). In addition, on April 17, 2003, the plaintiffs in a consolidated action pending in the Delaware Chancery Court, which had consolidated a number of purported class actions filed against Hotels.com, IAC, and members of the board of directors of Hotels.com as a result of IAC's announcement in June 2002 of its intention to enter into a Hotels.com acquisition transaction, filed a consolidated and amended class-action complaint. *See In re Hotels.com Shareholders Litigation*, No. 16662-NC (New Castle County). Pursuant to an agreement among the parties, the defendants' time to respond to this complaint and to the complaint in the *Garvey* case has been adjourned indefinitely.

The complaints in the two Delaware actions and the class allegations in the complaint in the Texas action allege, in essence, that the defendants breached their fiduciary duties to Hotels.com's public shareholders by entering into and/or approving the merger agreement, which allegedly does not reflect the true value of Hotels.com. The complaints sought to enjoin consummation of the transaction or, in the alternative, to rescind the transaction, as well as damages in an unspecified amount.

On April 18, 2003, the Texas action (*Solodovnikov*) was removed to the United States District Court for the Northern District of Texas. On May 2, 2003, the plaintiff in this action filed a motion to remand the case to state court. On June 3, 2003, the plaintiff withdrew his motion to remand the case to state court and filed a motion in federal court for expedited discovery in anticipation of filing a motion for a preliminary injunction against consummation of the IAC/Hotels.com merger. The defendants opposed the motion. On June 16, 2003, the district court denied the plaintiff's motion for expedited discovery. On June 23, 2003, the IAC/Hotels.com merger transaction closed.

Expedia believes that the allegations in these lawsuits are without merit and will continue to defend vigorously against them.

Litigation Relating to Hotels.com's Guidance for the Fourth Quarter of 2002.

Securities Class Action. On January 10, 2003, a securities class action, *Daniel Taubenfeld et al., on Behalf of Themselves and All Others Similarly Situated v. Hotels.com et al.*, No. 3:03-CV-0069-N, was filed in the United States District Court for the Northern District of Texas, arising out of Hotels.com's downward revision of its guidance for the fourth quarter of 2002. This lawsuit alleges that the defendants, Hotels.com and three of its former executives, violated the federal securities laws during the period from October 23, 2002 to January 6, 2003 (the "Class Period"). The defendants are alleged to have knowingly (i) made certain materially false and misleading public statements with respect to the anticipated performance of Hotels.com during the fourth quarter of 2002, and (ii) concealed from the investing public certain material events and developments that were likely to render that anticipated performance unattainable. The individual defendants are further alleged to have profited from the rise in Hotels.com's share price caused by their public statements through sales of Hotels.com stock during the Class Period. The lawsuit further alleges that as a result of Hotels.com's announcement, on January 6, 2003, of a downward revision of its guidance for the fourth quarter of 2002, its share price declined by 25%. The lawsuit seeks certification of a class of all non-defendant purchasers of Hotels.com stock during the Class Period and seeks damages in an unspecified amount. Three other substantially similar securities class actions were filed in the same court shortly thereafter and were later consolidated with the *Taubenfeld* case.

On August 18, 2003, the lead plaintiffs in this action filed a consolidated class-action complaint. On October 31, 2003, the defendants filed a motion to dismiss the consolidated complaint. The plaintiffs opposed the motion. On September 27, 2004, the district court issued an order granting the defendants' motion to dismiss the complaint. The court's ruling was based upon a number of grounds, including that certain of the statements complained of were forward-looking statements accompanied by appropriate cautionary language and thereby protected by the "safe harbor" provisions of the Private Securities Litigation Reform Act, and that certain of the statements and omissions complained of were, as a matter of law, not material and therefore not actionable. The court dismissed all of the plaintiffs' claims with prejudice (i.e., without leave to replead them), with the exception of two claims involving statements by analysts. The plaintiffs have advised that they do not intend to attempt to replead those claims. On March 4, 2005, the plaintiffs filed a notice of appeal of the district court's ruling to the United States Court of Appeals for the Fifth Circuit.

Shareholder Derivative Suit. Two shareholder derivative actions, *Anita Pomilo Wilson, Derivatively on Behalf of Nominal Defendant Hotels.com v. Elan J. Blutinger et al.*, No. 3:03-CV-0501-K, and *Alex Solodovnikov, Derivatively on Behalf of Hotels.com v. Robert Diener et al.*, No. 3:03-CV-0812-K, arising out of the same events as the consolidated securities class action, were removed to the same Texas federal district court after having been filed in Texas state court on January 14, 2003 and March 14, 2003, respectively. The defendants in these shareholder derivative actions are Hotels.com (as a nominal defendant only) and a number of current or former directors of Hotels.com. These lawsuits allege that the individual defendants who, during the period from October 25, 2002 to December 3, 2002, sold Hotels.com stock breached their fiduciary duty to Hotels.com by misappropriating, and trading and profiting on the basis of, proprietary, material non-public information concerning the financial condition and growth prospects of Hotels.com. The lawsuits also allege that all of the individual defendants aided and abetted the selling defendants' breaches of fiduciary duty by concealing from the market the information on the basis of which the selling defendants allegedly traded and profited. The lawsuits seek imposition of a constructive trust in favor of Hotels.com on the profits obtained by the selling defendants on their sales of Hotels.com stock during the period referred to above, as well as unspecified damages resulting from the individual defendants' alleged breaches of fiduciary duty.

On December 16, 2003, the two shareholder derivative actions were consolidated under the caption, *In re Hotels.com Derivative Litigation*, No. 3:03-CV-501-K (N.D. Tex.). On April 26, 2004, the lead plaintiff filed a consolidated amended complaint. The amended complaint, which asserts claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment against sixteen current or former directors of Hotels.com, seeks damages, restitution, and disgorgement of profits in an unspecified amount, together with the imposition of a constructive trust on those profits. The amended complaint reiterates the allegations of the two shareholder derivative actions described above and further alleges that certain of the individual defendants caused Hotels.com to enter into the IAC/Hotels.com merger transaction in order, among other self-interested reasons, to procure the dismissal of the previously filed derivative actions. In this respect, the amended complaint seeks a judicial declaration, on behalf of all pre-merger public shareholders of Hotels.com stock, that the IAC/Hotels.com merger agreement, which resulted in the IAC/Hotels.com merger transaction that closed on June 23, 2003, is unlawful and unenforceable.

On June 28, 2004, the defendants filed a motion to dismiss the consolidated amended complaint. The plaintiff opposed the motion.

On October 18, 2004, the district court directed the parties to engage in mediation. On December 20, 2004, the parties engaged in mediation before a retired federal district judge. The mediation did not result in a resolution of this matter. On January 10, 2005, the parties, with the concurrence of the mediator, filed a joint motion requesting the district court to stay the shareholder derivative action pending resolution of the plaintiffs' contemplated appeal from the district court's dismissal of the related securities class action.

On February 23, 2005, the district court issued an order denying the defendants' motion to dismiss as well as the parties' joint motion for a stay. On March 7, 2005, the district court issued orders vacating its denial of the parties' stay motion, staying the case until further notice and directing that the case be administratively closed pending a decision in the appeal of the related securities class action.

Expedia believes that both the securities class action and the shareholder derivative action lack merit and will continue to defend vigorously against them.

Litigation Relating to Hotel Occupancy Taxes.

Texas. On June 20, 2003, a purported class action was filed in Texas state court against Hotels.com. *See Nora J. Olvera, Individually and on Behalf of All Others Similarly Situated v. Hotels.com, Inc.*, No. DC-03-259 (District Court, 229th Judicial District, Duval County). The complaint alleges that Hotels.com collects "excess" hotel occupancy taxes from consumers (i.e., allegedly charges consumers more for occupancy taxes than it pays to the hotels for their use in satisfying their obligations to the taxing authorities). The complaint sought certification of a nationwide class of all persons who have purchased hotel accommodations from Hotels.com since June 20, 1999, as well as restitution of, disgorgement of, and the imposition of a constructive trust upon all "excess" occupancy taxes allegedly collected by Hotels.com. On July 14, 2003, Hotels.com filed a responsive pleading that denied the material allegations of the complaint and asserted a number of defenses, including that the allegations in the complaint are subject to mandatory arbitration.

On August 12, 2003, the plaintiff filed an amended complaint containing substantially the same factual allegations and requests for relief, but naming as defendants Hotels.com, L.P., Hotels.com (the parent company of the Hotels.com, L.P. operating business), and IAC. On September 8, 2003, the defendants filed responsive pleadings that denied the material allegations of the amended complaint and asserted a number of defenses, including that the allegations in the amended complaint are subject to mandatory arbitration and, in IAC's case, that the court lacks personal jurisdiction over IAC.

On January 24, 2004, the Hotels.com defendants filed a motion to stay the class-action litigation pending the outcome of an arbitration proceeding (described below) that had been commenced by the plaintiff. On January 30, 2004, the plaintiff opposed that motion and also filed a second amended complaint containing substantially the same factual allegations and requests for relief as her prior pleadings, but slightly modifying the class allegations to take account of the class period alleged in the arbitration proceeding.

On February 4, 2004, Hotels.com, L.P. filed a motion to dismiss the *Olvera* lawsuit for lack of subject-matter jurisdiction, based upon the named plaintiff's not being in fact a member of the class that she purports to represent. That motion, together with the Hotels.com defendants' motion to stay the lawsuit, was denied by the court on May 20, 2004.

On May 6, 2004, the plaintiff in the *Olvera* lawsuit filed a third amended complaint containing substantially the same factual allegations and requests for relief as her prior pleadings, but with additional allegations in support of her position that the court has personal jurisdiction over IAC.

On December 29, 2004, following the scheduling of a class certification hearing in the *Canales* lawsuit (as described below), the plaintiff in the *Olvera* lawsuit filed a motion for class certification. On February 16, 2005, the plaintiff in the *Olvera* lawsuit withdrew her request for class certification.

As noted above, on September 25, 2003, the plaintiff in the *Olvera* litigation filed with the American Arbitration Association in Dallas, Texas, a demand for arbitration against Hotels.com, L.P. The arbitration claim contained substantially the same factual allegations as in the *Olvera* lawsuit. The arbitration was purportedly brought on behalf of a class comprised of all persons who have purchased hotel accommodations from Hotels.com since October 31, 2001. The claimant sought a determination that the arbitration is properly maintainable as a class proceeding and an order requiring disgorgement and restitution to the class members of excess profits allegedly derived from "assessing" hotel occupancy taxes that were neither owed nor paid to any taxing authority. On October 27, 2003, Hotels.com, L.P. filed a responsive pleading that denied the material allegations of the arbitration claim and asserted a number of defenses.

On May 6, 2004, Hotels.com, L.P. filed a motion to dismiss the *Olvera* arbitration claim for lack of subject-matter jurisdiction, on the grounds that under Texas law the tax-based nature of the claim requires that it be adjudicated in a state administrative proceeding, not a private-party proceeding such as an arbitration. A hearing on that motion, as well as on the issue whether the governing arbitration clause permits the arbitration to be maintained as a class proceeding, was held on July 9, 2004.

On September 2, 2004, the arbitrator, accepting Hotels.com, L.P.'s position that the exclusive remedy for this type of tax-related claim is a state administrative proceeding, issued a final award dismissing the *Olvera* arbitration claim.

On March 26, 2004, the plaintiff in a separate class action pending in Texas state court, *Mary Canales, Individually and on Behalf of All Others Similarly Situated v. Hotels.com, L.P.*, No. DC-03-162 (District Court, 229th Judicial District, Duval County), filed a second amended complaint containing allegations that are substantially similar to allegations made in the *Olvera* lawsuit. On May 13, 2004, the plaintiff in the *Canales* lawsuit filed a third amended complaint alleging in essence (i) that Hotels.com charges customers "taxes" that exceed the amount required by or paid to the applicable taxing authorities, and (ii) that Hotels.com charges customers "fees" that do not correspond to any specific services provided. The amended pleading continues to seek nationwide class certification, asserts a claim only for breach of contract, and seeks damages in an unspecified amount.

Also on May 13, 2004, the plaintiff filed a motion for class certification. On June 24, 2004, Hotels.com, L.P. filed its opposition to that motion.

On July 9, 2004, the plaintiffs in the *Olvera* lawsuit filed a petition in intervention in the *Canales* lawsuit and a motion to stay the proceedings in that lawsuit or, alternatively, for a continuance of the hearing on the class-certification motion. The gravamen of the *Olvera* plaintiffs' intervention and motion is that the *Canales* plaintiff has transformed her lawsuit into a "copycat" of the *Olvera* lawsuit, to the potential detriment of the *Olvera* plaintiffs. On July 13, 2004, the *Canales* plaintiff filed a motion to strike the *Olvera* plaintiffs' intervention and motion. On August 2, 2004, the court heard argument on the two motions. On August 3, 2004, the court adjourned the hearing on the class-certification motion. On September 1, 2004, the court denied the *Canales* plaintiff's motion to strike the *Olvera* plaintiffs' intervention and motion.

On February 17, 2005, the court held a hearing on the plaintiffs' motion for class certification, as well as on the defendants' request for dismissal of the action on the same jurisdictional grounds on which the *Olvera* arbitration claim was dismissed. On April 29, 2004, the court issued orders denying the defendants' request for dismissal and granting the plaintiffs' motion for class certification. The defendants are appealing the court's class certification order.

California. On December 30, 2004, the city of Los Angeles filed a purported class action in California state court against a number of Internet travel companies, including Hotels.com, Expedia, and Hotwire. *See City of Los Angeles, California, on Behalf of Itself and All Others Similarly Situated v. Hotels.com, L.P. et al.*, No. BC326693 (Superior Court, Los Angeles County). The gravamen of this lawsuit, as in the Hotels.com consumer class action litigation described above, is that the defendants are improperly charging and/or failing to pay hotel occupancy taxes. The complaint seeks certification of a statewide class of all California cities and counties that have enacted uniform transient occupancy-tax ordinances effective on or after December 30, 1990. The complaint alleges violation of those ordinances, violation of section 17200 of the California Business and Professions Code, and common-law conversion. The complaint seeks imposition of a constructive trust on all monies owed by the defendants to the government, as well as disgorgement, restitution, interest, and penalties.

On January 10, 2005 and January 13, 2005, respectively, two purported class actions were filed in California state court against Hotwire and IAC. *See Bruce Deaton, on Behalf of Himself and All Others Similarly Situated v. Hotwire, Inc. et al.*, No. 05-437631 (Superior Court, San Francisco County); *Jana Sneddon, on Behalf of Herself and All Others Similarly Situated v. Hotwire, Inc. et al.*, No. 05-437701 (Superior Court, San Francisco County). The gravamen of these nearly identical lawsuits, as in the Hotels.com consumer class action litigation described above, is that Hotwire is improperly charging and/or failing to pay hotel occupancy taxes and engaging in other deceptive practices in charging customers for taxes and fees. The complaints seek certification of a nationwide class of all persons who were assessed a charge for "taxes/fees" when booking rooms through Hotwire. The complaints allege violation of Section 17200 of the California Business and Professions Code, violation of the California Consumer Legal Remedies Act, and common-law conversion. The complaints seek imposition of a constructive trust on monies received from the plaintiff class, as well as damages in an unspecified amount, disgorgement, restitution, interest, and penalties.

On February 17, 2005, a third, substantially similar purported class action was filed in California state court against Hotwire. *See Ashley Salisbury, on Behalf of Herself and All Others Similarly Situated and the General Public v. Hotwire, Inc. et al.*, No. 05-438781 (Superior Court, San Francisco County). The complaint seeks nationwide class certification, alleges violation of Section 17200 of the California Business and Professions Code and common-law conversion, and seeks the imposition of a constructive trust on monies received from the plaintiff class, damages in an unspecified amount, disgorgement, restitution, and injunctive relief.

On March 7, 2005, the defendants, invoking the recently enacted federal Class Action Fairness Act (the "CAFA"), removed these three cases to the United States District Court for the Northern District of California. On March 22, 2005, the plaintiffs filed motions to remand the cases to state court. On April 4, 2005, the defendants filed answers denying the material allegations of the three complaints and asserting various defenses. On April 19, 2005, the three cases were consolidated. On June 10, 2005, the defendants filed their opposition to the motions to remand.

On February 17, 2005, a purported class action was filed in California state court against a number of Internet travel companies, including Expedia and Hotels.com (as well as IAC). *See Ronald Bush et al. v. CheapTickets, Inc. et al.*, No. BC329021 (Superior Court, Los Angeles County). The gravamen of this lawsuit, as in the Hotels.com and Hotwire consumer class action litigation described above, is that the defendants are improperly charging and/or failing to pay hotel occupancy taxes and engaging in other deceptive practices in charging customers for taxes and fees. The complaint seeks certification of a statewide class of all California residents who were assessed a charge for "taxes/fees" when booking rooms through the defendants. The complaint alleges violation of Section 17200 of the California Business and Professions Code and common-law conversion. The complaint seeks the imposition of a constructive trust on monies received from the plaintiff class, as well as damages in an unspecified amount, disgorgement, restitution, and injunctive relief.

On March 28, 2005, the defendants, invoking the CAFA, removed the case to the United States District Court for the Central District of California. On March 31, 2005, the district court issued an order to show cause why the case should not be remanded back to state court. After the parties filed responses to the order to show cause, the district court, on May 9, 2005, issued an order remanding the case to state court on the grounds that the CAFA does not apply to the case and there thus is no statutory basis for removal. On May 16, 2005, the defendants filed a petition with the United States Court of Appeals for the Ninth Circuit for leave to appeal the district court's remand order. The petition is pending.

Washington. On January 10, 2005, two purported class actions were filed in Washington state court against Expedia and IAC. *See C. Michael Nielsen et al. v. Expedia, Inc. et ano.*, No. 05-2-02060-1 (Superior Court, King County); *Bruce Deaton et ano. v. Expedia, Inc. et ano.*, No. 05-2-02062-8

(Superior Court, King County). The gravamen of these nearly identical lawsuits, as in the other consumer class action litigation described above, is that Expedia is improperly charging and/or failing to pay hotel occupancy taxes and engaging in other deceptive practices in charging customers for taxes and fees. The complaints seek certification of a nationwide class of all persons who were assessed a charge for "taxes/fees" when booking rooms through Expedia. The complaints allege violation of the Washington Consumer Protection Act and common-law conversion. The complaints seek imposition of a constructive trust on monies received from the plaintiff class, as well as damages in an unspecified amount, disgorgement, restitution, interest, and penalties.

On February 3, 2005, a third, substantially similar purported class action was filed in Washington state court against IAC and Expedia. *See Jose Alba, on Behalf of Himself and All Others Similarly Situated v. IAC/InterActiveCorp et ano.*, No. 05-2-04533-7 (Superior Court, King County). The complaint seeks nationwide class certification, alleges violation of the Washington Consumer Protection Act, and seeks damages in an unspecified amount, disgorgement, restitution, interest, and penalties. On February 18, 2005, the *Nielsen*, *Deaton*, and *Alba* cases were consolidated into one action, *In re Expedia Hotel Taxes and Fees Litigation*, No. 05-2-02060-1 (Superior Court, King County).

On March 7, 2005, Expedia, invoking the CAFA, removed the consolidated action to the United States District Court for the Western District of Washington. On March 17, 2005, the plaintiffs filed a motion to remand the case to state court. Expedia opposed the motion. On April 15, 2005, the district court issued an order remanding the case to state court on the grounds that the CAFA does not apply to the case and there thus is no statutory basis for removal. On April 22, 2005, Expedia filed a petition with the United States Court of Appeals for the Ninth Circuit for leave to appeal the district court's remand order. The petition is pending.

Expedia believes that the claims in all of these litigations relating to hotel occupancy taxes lack merit and will continue to defend vigorously against them.

French Competition Council Complaint. Expedia is party to a joint venture with Société Nationale des Chemins de Fer Français (SNCF), the state-owned railway group in France, which operates *www.voyages-sncf.com*, a leading online site for e-tourism in France. See " International Opportunities and Investments." On July 6, 2004, Lastminute.com filed with the French Competition Council a claim against the joint venture, SNCF and Expedia alleging that the joint venture violates applicable competition laws and is an abuse of dominant position by SNCF, a public monopoly, and an attempt to improperly eliminate competition in the online travel agency market. Lastminute.com's request for interim relief was denied by the Council on October 13, 2004.

Expedia believes that Lastminute.com's allegations lack merit and will continue to defend vigorously against them.

Expedia Capitalization

	As of March 31, 2005	
	Actual	As Adjusted
	(In Thousands)	
Cash and cash equivalents	$ 308,911	$ 217,911(1)(4)
Shareholders' equity:		
Common stock $.001 par value; authorized 1,600,000,000 shares; issued and outstanding 293,816,825		294(2)
Class B common stock $.001 par value; authorized 400,000,000 shares; issued and outstanding 25,599,998		26(2)
Additional paid-in capital		5,548,044(2)(3)
Retained earnings		420,376(2)
Accumulated other comprehensive loss		(1,626)(2)
Shareholders' equity	8,213,914	5,967,114(2)
Total Capitalization	$ 8,213,914	$ 5,967,114

(1) To reflect the allocation to Expedia by IAC of $100 million of cash, excluding the cash held by eLong, pursuant to the terms of the spin-off and separation of Expedia from IAC.

(2) To reflect the exchange of IAC Series 1 Mandatory Exchangeable Preferred Stock into Expedia $0.001 par value common stock and the exchange of IAC Series 2 Mandatory Exchangeable Preferred Stock that will automatically exchange into Expedia $0.001 par value Class B common stock to effect the reclassification.

(3) To reflect the extinguishment of all intercompany balances in the form of a distribution to IAC pursuant to the terms of the spin-off and separation of Expedia from IAC.

(4) In connection with the spin-off, Expedia expects to enter into a revolving credit facility for up to $1 billion with various lenders. Expedia and certain subsidiaries of Expedia will unconditionally guarantee Expedia's obligation under the credit facility. Expedia expects to draw down $150 million concurrent with the spin-off.

Management Discussion and Analysis of Financial Condition and Results of Operations of Expedia

The following discussion describes the financial condition and results of operations of Expedia as though Expedia were a separate company as of the dates and for the periods presented. This selected historical combined financial data includes the effect of the businesses, assets and liabilities that will comprise Expedia following the spin-off. The assets and liabilities of Expedia will be accounted for at the historical value carried by IAC prior to the spin-off.

For additional information relating to IAC, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in IAC's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and in IAC's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2005, which are incorporated by reference into this proxy statement/prospectus.

Basis of Presentation

On December 21, 2004, IAC announced the spin-off. See "Summary The Spin-Off" and "The Spin-Off Proposal." In connection with the spin-off, Expedia was incorporated as a Delaware corporation in April 2005. See " Description of Business History." Expedia currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Following the completion of the spin-off, Expedia will consist of IAC's travel and travel-related businesses, subsidiaries and investments (other than Interval International and TV Travel Shop, which IAC will retain) and TripAdvisor (collectively, the "Expedia Businesses").

The Historical Combined Financial Statements of Expedia and its subsidiaries (which are attached as Annex D to the proxy statement/prospectus) and the disclosure set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations of Expedia assume (i) the contribution or other transfer of all of the subsidiaries and assets relating to the Expedia Businesses to Expedia, (ii) the assumption by Expedia or one of its subsidiaries of all of the liabilities relating to the Expedia Businesses and (iii) the allocation to Expedia of certain IAC corporate expenses relating to the Expedia Businesses for certain periods, certain of which will occur in connection with the spin-off and certain of which are governed by the terms of the separation agreement. See "The Spin-Off Proposal Relationship Between IAC and Expedia after the Spin-Off Separation Agreement."

Accordingly, the Historical Combined Financial Statements of Expedia reflect the historical financial position, results of operations and cash flows of the Expedia Businesses since their respective dates of acquisition by IAC (see " Description of Business History"), based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the Expedia Businesses, with the exception of accounting for income taxes, which for purposes of the Historical Combined Financial Statements of Expedia have been computed for Expedia on a separate tax return basis.

Management of Expedia believes that the assumptions underlying the Historical Combined Financial Statements of Expedia are reasonable. However, this financial information does not necessarily reflect the future financial position, results of operations and cash flows of Expedia, nor does it reflect what the historical financial position, results of operations and cash flows of Expedia would have been had Expedia been a stand-alone company during the periods presented. For example, the Historical Combined Financial Statements of Expedia do not assume the completion of certain aspects of the spin-off discussed in the Unaudited Pro Forma Condensed Combined Financial Statements for Expedia, which are attached as Annex C to this proxy statement/prospectus.

The Historical Combined Financial Statements of Expedia include allocations by IAC to Expedia of certain IAC corporate expenses relating to the Expedia Businesses from their respective dates of acquisition by IAC. General allocable corporate overhead has been allocated based on the ratio of Expedia's revenue as a percentage of IAC's total revenue. General allocated corporate overhead, which primarily includes expenses relating to accounting, treasury, legal, tax, corporate support, human resource functions and internal audit, amounted to approximately $7.5 million and $2.0 million in 2004 and 2003, respectively, and $1.6 million and $1.9 million during the three months ended March 31, 2005 and 2004, respectively. It is not practicable to determine the amount of these expenses that would have been incurred had Expedia operated as an unaffiliated entity. In the opinion of management of Expedia, the allocation method is reasonable. Following the completion of the spin-off, Expedia will perform these functions using its own resources or purchased services.

The Historical Combined Financial Statements of Expedia and its subsidiaries and the disclosure set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations of Expedia also reflect the calculation of Expedia's income taxes (on a combined basis for all of the Expedia Businesses) on an as if stand-alone, separate tax return basis. Expedia has been a member of the IAC consolidated federal and state tax returns since August 2003 and has filed in certain states with IAC on a combined or unitary basis since 2002. In all periods presented, current and deferred tax expense has been computed for Expedia on an as if separate tax return basis. IAC reimburses Expedia for its net operating losses and tax credits that are utilized in the IAC consolidated tax returns. These calculations do not necessarily reflect what Expedia's future income taxes will be, nor do they reflect tax strategies that Expedia would have followed or will follow as an as if stand-alone entity, given that its tax position was being managed by IAC for the benefit of IAC on a consolidated basis. The respective rights, responsibilities and obligations of Expedia and IAC after the spin-off with respect to taxes for the periods ending on or before the spin-off will be governed by a tax sharing agreement. See "The Spin-Off Proposal Relationship Between IAC and Expedia after the Spin-Off Tax Sharing Agreement."

Management Overview

Expedia is among the world's leading travel services companies, making travel products and services available to leisure and corporate travelers in the United States and abroad through a diversified portfolio of brands and businesses, including Expedia.com, Hotels.com, Hotwire, Expedia Corporate Travel, Classic Custom Vacations and a range of other domestic and international brands and businesses. For further information regarding Expedia's brands and business, see the disclosure set forth under the caption " Description of Business" above and Note 1 to the Audited Historical Combined Financial Statements of Expedia for the years ended December 31, 2004, 2003 and 2002 attached as Annex D to this proxy statement/prospectus.

Principal Products, Services, Sources of Revenue. Through its various businesses and investments, Expedia makes available a variety of travel-related products and services from a wide array of travel suppliers on a stand-alone and package basis, primarily through its merchant and agency businesses. During 2004, revenues from the worldwide booking of hotel rooms through Expedia's merchant hotel business, which yields higher gross profit than its agency business, was the primary contributor to Expedia's combined revenues. In the case of its merchant hotel business, Expedia generally has certain latitude to establish and change prices charged to customers (as compared to agency transactions).

Channels of Distribution; Marketing Costs. Expedia markets and offers products and services directly to customers primarily through branded websites. Expedia has made, and expects to continue to make, substantial investments in online and offline advertising to build its brands and businesses and drive traffic to Expedia-branded websites.

Expedia also pays to market and distribute the products and services of its travel suppliers on third party distribution channels, such as internet portals and search engines. In addition, some of Expedia's businesses manage affiliate programs, pursuant to which they pay commissions and fees to third parties based on revenue earned. In many cases, these distribution channels also offer their own products and services, as well as those of other third parties, that compete with those made available and offered by Expedia businesses.

The cost of acquiring new customers through online and offline third party distribution channels has increased, particularly in the case of online channels as internet commerce continues to grow and competition in the travel and travel-related industries increases. Also, Expedia continues to place an increased emphasis on retaining current customers. As a result of these continued efforts, Expedia expects sales and marketing expense as a percentage of revenue to continue to increase. Sales and marketing expense as a percentage of revenue (on a comparable net basis) increased from approximately 30% in 2003 to approximately 33% in 2004, which increase contributed, in part, to a decrease in Operating Income Before Amortization margin (on a comparable net basis) from approximately 33% in 2003 to approximately 30% in 2004. For a discussion regarding the reporting of revenue on a comparable net basis, see " Results of Operations for the Year Ended December 31, 2004 compared to the Year Ended December 31, 2003."

Access to Supply.   Expedia provides its travel suppliers and distribution partners with important customer acquisition channels through its multiple brands and businesses. Expedia believes that the ability of its travel suppliers and distribution partners to reach a large audience through its brands and businesses is a great benefit. Expedia's brands and businesses offer customers the choice of multiple suppliers in one setting. While Expedia aims to build and maintain strong relationships with its travel suppliers and distribution partners, it may not succeed in these efforts and there is always the risk that certain travel suppliers and/or distribution partners may not make their products and services available to Expedia in the future. Additionally, there has been increased emphasis by travel suppliers on their own direct sale of products and services through their own direct channels.

Results of Operations for the Year Ended December 31, 2004 compared to the Year Ended December 31, 2003

	Twelve Months Ended December 31,		
	2004	**2003**	**Percentage Change**
	(Dollars in millions)		
Revenues (on a comparable net basis)(a)	$ 1,843.0	$ 1,400.2	32%
Revenues (as reported)	$ 1,843.0	$ 2,339.8	(21%)
Operating Income Before Amortization	553.7	469.0	18%
Amortization of non-cash distribution and marketing expense	(16.7)	(42.0)	
Amortization of non-cash compensation expense	(171.4)	(95.8)	
Amortization of intangibles	(125.1)	(76.1)	
Merger costs		(11.7)	
Operating income	$ 240.5	$ 243.5	(1%)
Operating income as a percentage of revenue (on a comparable net basis)	13.0%	17.4%	
Operating Income Before Amortization as a percentage of revenue (on a comparable net basis)	30.0%	33.5%	

(a) As part of the integration of Expedia's businesses, Hotels.com conformed its merchant hotel business practices with those of the other Expedia businesses. As a result, beginning January 1, 2004, Expedia commenced prospectively reporting revenue for Hotels.com on a net basis, consistent with Expedia.com's historical practice. Accordingly, Expedia is including prior year results as though Hotels.com had reported revenue on a net basis for the purpose of better comparability. There was no impact to operating income or Operating Income Before Amortization from the change in reporting.

The following discussion is based upon comparable net revenue amounts:

Revenue grew 32%, primarily driven by the merchant hotel business, the air business and packages, all of which benefited from the inclusion of the results of Hotwire as of November 5, 2003. This increase was also due in part to the inclusion, as of April 27, 2004, of the results of TripAdvisor, which contributed revenues of $16.9 million in 2004, net of intercompany eliminations.

Merchant hotel revenue increased 24% due primarily to an increase in merchant hotel room nights stayed, as well as an increase in revenue per room night. Merchant hotel room nights stayed, including rooms booked as a component of packages, increased 21% to 31.7 million, reflecting continued growth in international demand, the inclusion of the results of Hotwire and growth in Expedia's private label business. Revenue per room night increased 3%, due primarily to increases in average daily room rates, which increase was partially offset by a decline in merchant hotel raw margins (defined as merchant hotel net revenue as a percent of gross bookings).

Expedia's U.S. merchant hotel business continues to operate in a more challenging environment than in the prior year, due primarily to increased competition from third party distributors, increased promotion by hotel chains of their own direct sites and higher overall occupancy rates, resulting in decreased availability of favorably priced travel products and services compared with the prior year period. These trends are generally expected to continue.

Revenue from Expedia's air business increased 34% from 2003. While air revenue per transaction was lower, air transaction volume increased over the prior year period, driven by domestic and international ticket sales and the inclusion of the results of Hotwire. The number of air tickets sold through Expedia's brands and businesses increased by 4.7 million, or 33%, as compared to the prior year.

Revenue from global travel packages, which allow customers to customize their travel by combining air, hotel, car and other stand-alone travel products, was up 34% from 2003, due to improved package options.

Revenue from international websites increased 111%, or 95% on a local currency basis, to $319.1 million in 2004 from $151.3 million in 2003. The United Kingdom, German and Canadian websites, as well as the inclusion of the results of *www.anyway.com* (which was acquired in October 2003) and Expedia Corporate Travel-Europe (which was acquired in April 2004), contributed to this international growth. Full-service, Expedia-branded websites were also introduced in France and Italy in late June 2004.

Overall revenue margins (defined as net revenue as a percent of gross bookings) decreased by 20 basis points, due primarily to the decline in merchant hotel raw margins and lower air revenue per transaction. This decrease was partially offset by higher merchant hotel average daily room rates and inclusion of the results of TripAdvisor in 2004. Expedia expects these trends to continue in the near term.

Gross profit increased $289.9 million, or 25%, as compared to the prior year. This increase was primarily driven by the growth in Expedia's merchant hotel business, including increased revenues from international websites and packages. Expedia's merchant business yields higher gross profit per transaction than its agency business. This increase was partially offset by a decrease in gross margins of 4% year over year due to the reclassification in 2004 of certain Hotels.com's general and administrative expenses to cost of sales to conform to the historical practices of Expedia.com.

Selling and marketing expenses increased $192.1 million, or 46%, primarily driven by search-related costs and increased marketing volume, as well as higher costs of traffic acquisitions online and greater emphasis on international businesses, which have a higher selling and marketing cost relative to revenue due to their earlier stages of development. International selling and marketing expense increased 122%. The inclusion of the results of Hotwire for the full year 2004 and the inclusion of the results of TripAdvisor since its acquisition in April 2004 also contributed to the increase in selling and marketing expense.

General and administrative expenses increased $9.1 million, or 4%, due primarily to increased headcount in website development and administrative functions, such as legal, tax, accounting and information technology, as well as the inclusion of the results of Hotwire in 2004. Also, due to the increasing complexity of certain of Expedia's businesses, Expedia utilized external professional services for legal, tax and accounting to a greater extent in 2004 as compared to 2003. The comparisons over the prior year were also favorably impacted by the reclassification in 2004 of certain general and administrative expenses of Hotels.com to cost of sales to conform with the historical practices of Expedia.com, as noted above.

Depreciation expense increased $4.0 million, or 14%, due primarily to increased capital expenditures and the inclusion of the results of Hotwire in 2004. These increases were partially offset by a $4.7 million write-down of packaging technology by Hotels.com, which was recognized in 2003 as a result of Hotels.com adopting Expedia.com's packaging technology.

Operating Income Before Amortization grew 18%, due primarily to increased revenues as discussed above, profitability at Expedia Europe and the inclusion of the results of TripAdvisor as of April 27, 2004. This growth in Operating Income Before Amortization was partially offset by a 46% increase in selling and marketing expense, as discussed above. Operating Income Before Amortization was also favorably impacted in 2004 by a $12.1 million net reserve adjustment primarily related to the reversal of an air excise tax reserve and the resolution of a contractual dispute. Comparisons of Operating Income Before Amortization to prior year results were also favorably impacted by a $4.7 million write-down relating to packaging technology by Hotels.com in 2003, as described above.

Operating income decreased 1% due to (1) an increase in the amortization of intangibles of $49.0 million principally due to increases in intangible assets due principally to IAC's acquisition of the public's minority interest in Hotels.com and Expedia.com in 2003 and the inclusion of the results of Hotwire in 2004 and (2) an increase in non-cash compensation expense of $75.6 million due to the Expedia.com and Hotels.com mergers in 2003, which resulted in the conversion of all Expedia.com and Hotels.com stock options, warrants, and restricted stock into IAC equity awards. This non-cash compensation expense relates to employees of Expedia.com and Hotels.com and is recorded over the remaining vesting period of the equity awards. These items were offset by the increase in Operating Income Before Amortization described above, as well as (1) a decrease in non-cash distribution and marketing expense of $25.2 million due primarily to the termination of Hotels.com's distribution agreement with Travelocity and (2) a decrease in merger costs of $11.7 million associated with the Expedia.com and Hotels.com mergers in 2003.

Net interest income increased $18.6 million, or 94%, as a result of higher receivable balances due from IAC and its subsidiaries, as well as higher interest rates earned in 2004 on these balances, in each case, pursuant to cash management arrangements with IAC. In late 2003, IAC entered into arrangements with certain Expedia businesses to transfer their marketable securities and excess cash to IAC periodically in order for IAC to centrally manage all treasury functions.

Equity in the income (losses) of unconsolidated affiliates and other expenses increased $1.5 million, or 20%, primarily due to increased bank fees partially offset by increased equity in the income of an unconsolidated affiliate of Expedia.com.

The effective tax rate from continuing operations was 39% in 2004, as compared to 38% in 2003. The 2004 rate, is higher than the 2003 rate, principally due to the increase of valuation allowances on foreign net operating loss carryforwards in 2004 and the loss of the favorable impact of tax-exempt interest on the effective tax rate in 2004 as compared to 2003.

Minority interest in the loss (income) of consolidated subsidiaries decreased $47.2 million in 2004. Minority interest in the loss of consolidated subsidiaries in 2004 represents the minority interest in TripAdvisor and Egencia, SA. Minority interest in the income of consolidated subsidiaries in 2003 represents the public's minority ownership in Hotels.com and Expedia.com until their respective buy-in dates during 2003.

Expedia does not collect or remit occupancy tax on the portion of hotel customer payments that it retains for the intermediary services it provides in connection with its merchant hotel business. While discussions and developments relating to this practice are ongoing in various tax jurisdictions and the issue is the subject of several ongoing lawsuits, Expedia continues to believe the issue will not have a material adverse effect on its past or future financial results.

Results of Operations For the Year Ended December 31, 2003 compared to the Year Ended December 31, 2002

	Twelve Months Ended December 31,		
	2003	**2002**	**Percentage Change**
	(Dollars in millions)		
Revenues (on a comparable net basis)(a)	$ 1,400.2	$ 841.4	66%
Revenues (as reported)	$ 2,339.8	$ 1,499.1	56%
Operating Income Before Amortization	469.0	285.0	65%
Amortization of non-cash distribution and marketing expense	(42.0)	(32.7)	
Amortization of non-cash compensation expense	(95.8)	(5.6)	
Amortization of intangibles	(76.1)	(42.9)	
Merger costs	(11.7)	(2.3)	
Pro forma adjustments		(7.7)	
Operating income	$ 243.5	$ 193.8	26%
Operating income as a percentage of revenue (on a comparable net basis)	17.4%	23.0%	
Operating Income Before Amortization as a percentage of revenue (on a comparable net basis)	33.5%	33.9%	

(a) As part of the integration of Expedia's businesses, Hotels.com conformed its merchant hotel business practices with those of the other Expedia businesses. As a result, beginning January 1, 2004, Expedia commenced prospectively reporting revenue for Hotels.com on a net basis, consistent with Expedia.com's historical practice. Accordingly, Expedia is including prior year results as though Hotels.com had reported revenue on a net basis for the purpose of better comparability. There was no impact to operating income or Operating Income Before Amortization from the change in reporting.

The following discussion is based upon comparable net revenue amounts:

Revenue growth in 2003 was primarily driven by strong results from the merchant hotel business, with additional growth coming from the package business. In addition, Hotwire, which was acquired in November 2003, contributed $12.5 million in revenue, although its operating income and Operating Income Before Amortization results were minimal for the period.

Merchant hotel room nights stayed increased 64% over 2002, including an increase in international markets, which represented 12% of total merchant hotel revenues in 2003 as compared to 5% in 2002. The increase in merchant hotel revenue was partially offset by the termination of the Travelocity

affiliate relationship in September 2003. Travelocity was the largest affiliate of Hotels.com, representing 9% of Expedia revenues on a comparable net basis (6% as reported) in 2003, as compared to 20% on a comparable net basis (11% as reported) in 2002. Even though Travelocity represented a significant, albeit declining, percentage of revenue, Expedia expects that the long-term benefits of this event will outweigh the near-term negative impact, including the ability to integrate the operations of Expedia.com and Hotels.com.

Revenue from travel packages, which allow customers to customize their travel by combining air, hotel, car and other stand-alone travel products, was $296.0 million in 2003, up 92% from 2002, due to improved package offerings and consumer acceptance of this product.

Revenue, Operating Income Before Amortization and operating income were positively impacted in 2003 based on an analysis performed in the fourth quarter related to estimated supplier liabilities, resulting in an adjustment of $22.4 million, $9.8 million of which related to periods prior to 2003. Excluding this amount, Expedia's revenue, Operating Income Before Amortization and operating income would have grown 64%, 57% and 14%, respectively in 2003. The analysis performed provided additional evidence that Expedia used to update and refine its estimation of supplier liabilities, resulting in the decrease of $22.4 million. Expedia does not expect to record any similar-sized adjustments in future periods.

Gross profit increased $477.6 million, or 72%, as compared to prior year. Gross margin increased 3% as compared to the prior year. The increase was mainly driven by the growth in merchant hotel business and packages as Expedia's merchant business yields higher gross profit per transaction than its agency business.

Selling and marketing expenses increased $185.8 million in 2003, up 81% from the prior year, in order to build brands and drive traffic to domestic and international websites. Promotional activities included television ads, radio, magazine and other print media advertising and search related costs, as well as distribution activities through affiliate partners. The increase in selling and marketing expenses as a percent of revenue was driven by higher costs of traffic acquisitions online, higher CPMs offline, and a shift in business mix as Expedia's international businesses, which have a higher selling and marketing cost relative to revenue due to their early stages of development, grew faster than Expedia's domestic businesses.

General and administrative expenses increased $91.0 million, or 67% from the prior year, due primarily to increased headcount for website development efforts domestically, as well as the launch of new international sites. In addition, headcount in administrative functions, such as information technology, finance, legal and human resources, increased to support growth in the business. Due to the complexity of certain of Expedia's businesses, Expedia utilized external professional services for legal, tax and accounting to a greater extent in 2003, as compared to 2002. For both 2003 and 2002, call center sales and support costs and credit card fees were included in general and administrative costs for Hotels.com. These costs increased in 2003 due to the sales growth at Hotels.com.

Depreciation expense increased $9.1 million, or 50% from the prior year, due primarily to a $4.7 million write-down relating to packaging technology by Hotels.com, which write-down was recognized in 2003 as a result of Hotels.com adopting Expedia.com's packaging technology. The remainder of this increase was due to increased capital expenditures related to the growth of Expedia's business.

Operating Income Before Amortization and operating income increased as a result of the growth in revenues, although Operating Income Before Amortization increased at a higher rate than reported revenue due to expanding gross margins, as well as the scalability of the businesses, which allows them to support higher revenue levels without commensurate increases in operating costs. Net revenue as a percentage of total gross transaction value, assuming Hotels.com reported revenues on a net basis, was 14.6% in 2003, as compared to 14.2% in 2002. Comparisons of Operating Income Before Amortization to prior year results were also negatively impacted by the integration efforts undertaken in 2003, resulting in a write-down relating to packaging technology at Hotels.com, as described above.

Operating income was further impacted by (1) an increase in non-cash compensation of $90.1 million, (2) an increase in amortization of intangibles of $33.2 million due principally to Hotels.com and Expedia.com mergers in 2003, (3) an increase in non-cash distribution and marketing expense of $9.3 million related to an additional charge taken in connection with the termination of the Hotels.com distribution agreement with Travelocity in September 2003 and (4) an increase of $9.4 million in merger costs. Non-cash compensation is recognized with respect to unvested stock options, warrants, and restricted stock units assumed in the buy-ins of Hotels.com and Expedia.com. This non-cash compensation is recorded over the remaining vesting period of the equity awards.

Net interest income increased $4.6 million, or 31%, due primarily to a larger marketable securities balance throughout the year and higher rates of interest earned on marketable securities.

Equity in the income (losses) of unconsolidated affiliates and other income (expenses) decreased $8.3 million, primarily due to an increase in foreign currency exchange gains.

The effective tax rate for continuing operations was 38% in 2003, compared to 39% in 2002. The 2003 rate is lower than the 2002 rate, principally due to the unfavorable impact in 2002 of amortization of intangibles and stock-based compensation for book purposes for which IAC receives no tax deduction.

Minority interest in the income of consolidated subsidiaries decreased $3.2 million and represents the public's minority ownership in Hotels.com and Expedia.com until the dates of their respective buy-ins in June and August of 2003.

Financial Position, Liquidity And Capital Resources

As of December 31, 2004, Expedia had $156.6 million of cash and marketable securities on hand and $366.6 million in combined deferred merchant bookings and deferred revenue.

Net cash provided by operating activities was $802.9 million in 2004, as compared to $644.0 million in 2003. Cash flows from the merchant hotel business models of Expedia.com and Hotels.com contributed significantly to cash provided by operating activities. The increase in working capital cash flow was $300.2 million in 2004, as compared to $241.2 million in 2003, primarily reflecting changes in accounts and notes receivable, deferred merchant bookings and deferred revenue and in accounts payable and accrued expenses. In addition, cash provided by operations was impacted by the payment of approximately $7.3 million in taxes in 2004, as compared to $4.5 million in 2003.

For the years ended December 31, 2004 and 2003, cash flows provided by deferred merchant bookings and deferred revenue were $52.4 million and $83.5 million, respectively. In the merchant business, Expedia.com and Hotels.com receive cash from customers on hotel and air bookings before the stay or flight has occurred. These amounts are classified on Expedia's balance sheet as deferred merchant bookings. The payment to the suppliers related to these bookings is not made until approximately one week after booking for air travel and, for all other merchant bookings, after the customer's use and subsequent billing from the supplier. Therefore, especially for the merchant hotel business, which represents the majority of Expedia's overall merchant bookings, there is generally a significant period of time from the receipt of the cash from the customers to the payment to the suppliers. However, over time Expedia has paid its travel suppliers faster and expects this trend to continue. As long as Expedia's merchant hotel businesses continue to grow, as they have historically, and the related business model does not change, Expedia expects that the change in working capital will continue to be positive. If the growth of these businesses were to decline or if the related business model otherwise changed, it could negatively impact working capital. There is a seasonal element to cash flow related to merchant bookings, as the first half of the year has traditionally been a period where hotel bookings significantly exceed stays, resulting in much higher cash flow related to working capital. This trend reverses in the later part of the year. While this seasonality is expected to continue, working capital related to merchant bookings may be impacted by changes in growth rates, which might counteract the anticipated seasonality.

Cash provided by operations and available cash in 2004 were used to pay for acquisitions and deal costs, net of acquired cash, of $261.4 million. Cash acquisitions in 2004 primarily relate to TripAdvisor and Egencia. In addition, in 2004 Expedia increased its long-term investments by $72.4 million, primarily related to eLong, Inc., and incurred capital expenditures of $53.4 million. Net cash provided by operating activities and available cash in 2003 were used to pay for acquisitions and deal costs, net of acquired cash, of $704.9 million for the acquisitions of Hotwire.com and Anyway.com, and $46.2 million to make capital expenditures. Partially offsetting these amounts in 2003 were net proceeds of $70.0 million generated from the sale of marketable securities.

Cash used in financing activities in 2004 of $1.2 billion was primarily due to net transfers to IAC, pursuant to cash management agreements. These net transfers relate primarily to the transfer of marketable securities to IAC as well as transfers of Expedia's excess cash to IAC in order to be centrally managed by IAC's treasury function in 2004. Cash provided by financing activities in 2003 of $38.0 million was primarily due to net transfers from IAC of $80.3 million and proceeds from the issuance of Expedia.com and Hotels.com common stock pursuant to stock option exercises of $57.4 million, which was partially offset by the purchase of Expedia.com and Hotels.com treasury stock of $98.5 million.

Expedia anticipates that it will need to invest in the development and expansion of its overall operations. Expedia may make acquisitions, which could result in the reduction of its cash balance or the incurrence of debt. Furthermore, capital expenditures may be higher than current amounts over the next several years.

Future demand for products and services made available by Expedia's various businesses may be impacted by future economic and political developments. As previously discussed, a significant amount of operating cash flow is from increased deferred merchant bookings and the period between receipt of cash from the customer and payment of cash to the vendor. A change in this historical pattern could result in a decrease in operating cash flow, or negative operating cash flows in certain periods. Expedia believes that its financial situation would enable it to absorb a significant potential downturn in business.

Upon completion of the spin-off, Expedia will transfer to IAC all cash in excess of $100 million, and all intercompany receivable and payable balances will be extinguished. In addition, Expedia expects to enter into a revolving credit facility for up to $1 billion to be effective upon completion of the spin-off of which Expedia anticipates drawing down $150 million concurrent with the spin-off. As a result, in the opinion of Expedia's management, available cash, internally generated funds and available borrowings will provide sufficient capital resources to meet Expedia's foreseeable needs.

Contractual Obligations and Commercial Commitments

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1 3 years**	**3 5 years**	**More than 5 years**
			(In Thousands)		
Purchase obligations(a)	$ 9,802	$ 5,315	$ 4,487	$	$
Operating leases	86,057	17,230	32,826	23,315	12,686
Total contractual cash obligations	$ 95,859	$ 22,545	$ 37,313	$ 23,315	$ 12,686

(a) Purchase obligations are defined as agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable pricing provisions; and the approximate timing of the transaction.

Other Commercial Commitments*

	Amount of Commitment Expiration Per Period			
	Total Amounts Committed	Less than 1 year	1 3 years	3 5 years
	(In Thousands)			
Letters of credit	$ 44,957	$ 43,063	$ 1,771	$ 123
Guarantees **	72,834	71,655	1,179	
Total commercial commitments	$ 117,791	$ 114,718	$ 2,950	$ 123

* Commercial commitments are funding commitments that could potentially require performance by Expedia in the event of demands by third parties or contingent events, such as under lines of credit extended or under guarantees of debt.

** Obligations underlying certain of these guarantees (substantially all of which relate to commitments that expire in less than one year) are guaranteed by IAC on a joint and several basis with Expedia. These obligations are referred to herein as the Expedia/IAC Obligations. In connection with the spin-off, IAC has agreed to continue to guarantee certain of the Expedia/IAC Obligations on a short term basis and Expedia and IAC have agreed to certain related indemnification arrangements. For a description of these obligations and the related indemnification arrangements, see "The Spin-Off Proposal Relationship Between IAC and Expedia After the Spin-Off Separation Agreement."

Expedia's Principles Of Financial Reporting

Expedia reports Operating Income Before Amortization as a supplemental measure to GAAP. This measure is one of the primary metrics by which Expedia evaluates the performance of its businesses, on which its internal budgets are based and by which management is compensated. Expedia believes that investors should generally have access to the same set of tools that it uses in analyzing its 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. Expedia provides and encourages investors to examine the reconciling adjustments between the GAAP and non-GAAP measure, which are discussed below.

Definition of Expedia's Non-GAAP Measure

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

Pro Forma Results

Expedia has presented Operating Income Before Amortization pro forma for the impact of the initial acquisition of a controlling interest in Expedia.com, which occurred in February 2002, as if the transaction had occurred as of January 1, 2002. Expedia believes that the pro forma results provide investors with better comparisons to prior periods, and a better view of ongoing operations.

One-Time Items

Operating Income Before Amortization is presented before one-time items. 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. Merger costs incurred by Expedia.com and Hotels.com for investment banking, legal, and accounting fees were related directly to the mergers and were the only costs treated as one-time items for calculating Operating Income Before Amortization. These costs were incurred solely in relation to the mergers, but may not be capitalized since Expedia.com and Hotels.com were considered targets in the transaction for accounting purposes. These costs do not directly benefit operations in any manner, would not normally be recorded by Expedia if not for the fact IAC already consolidated these entities, and are all related to the same transaction, as IAC simultaneously announced its intention to commence its exchange offer for the companies in 2002. The majority of costs are for advisory services provided by investment bankers, and the amounts incurred in 2003 were pursuant to the same fee letters entered into by each of Expedia.com and Hotel.com in 2002. Given these factors, Expedia believes that it is appropriate to consider these costs as one-time.

Non-Cash Expenses That Are Excluded From Non-GAAP Measures

Amortization of non-cash compensation expense consists of restricted stock and options expense, which relates mostly to unvested options assumed as a result of the Hotels.com and Expedia.com mergers, as well as expense associated with grants of restricted stock units for compensation purposes, which have been reflected in Expedia's Historical Combined Financial Statements to the extent it relates to Expedia employees. These expenses are not paid in cash and Expedia will include the related shares in its future calculations of fully diluted shares outstanding.

Amortization of non-cash distribution and marketing expense consists mainly of Hotels.com performance warrants issued to obtain distribution and non-cash advertising secured from Universal Television as part of IAC's contribution of the USA Entertainment Group to a joint venture with Vivendi Universal on May 7, 2002 (the "2002 VUE transaction"). The Hotels.com warrants were principally issued as part of the initial public offering of Hotels.com, and Expedia does not anticipate replicating these arrangements. With the termination of the Travelocity affiliate agreement in September 2003, all outstanding Travelocity warrants were cancelled, although certain other Hotels.com performance warrants remain outstanding. The non-cash advertising from Universal has primarily been used for the benefit of Expedia.com, which runs television advertising primarily on the USA and Sci Fi cable channels without any cash cost. The advertising provided was secured by IAC pursuant to an agreement with Universal as part of the 2002 VUE transaction. Expedia does not expect to replace this non-cash marketing with an equivalent cash expense after it runs out in 2007, nor would Expedia incur such amounts absent the advertising received in the 2002 VUE transaction.

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 Expedia will have significant intangible amortization expense as it continues to acquire companies, Expedia believes that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they were part of transaction costs and will not be replaced with cash costs when the intangibles are fully amortized.

Reconciliation of Operating Income Before Amortization

The following table is a reconciliation of Operating Income Before Amortization to operating income and net income for the years ended December 31, 2004, 2003, and 2002.

	Twelve Months Ended December 31,		
	2004	**2003**	**2002**
		(In Thousands)	
Operating Income Before Amortization	$ 553,692	$ 469,010	$ 284,986
Amortization of non-cash distribution and marketing expense	(16,728)	(41,974)	(32,680)
Amortization of non-cash compensation expense	(171,400)	(95,781)	(5,632)
Amortization of intangibles	(125,091)	(76,073)	(42,909)
Merger costs(a)		(11,664)	(2,282)
Pro forma adjustments(b)			(7,713)
Operating income	240,473	243,518	193,770
Interest income	38,775	22,614	15,075
Interest expense	(453)	(2,905)	
Equity in (losses) income in unconsolidated affiliates and other	(9,252)	(7,729)	571
Income tax expense	(106,371)	(97,202)	(82,579)
Minority interest in loss (income) of consolidated subsidiaries	301	(46,889)	(50,124)
Net income	$ 163,473	$ 111,407	$ 76,713

(a) Costs for investment banking, legal and accounting fees related directly to the Expedia.com and Hotels.com mergers in 2003, which are considered as one-time, were incurred at Expedia.com and Hotel.com. These costs were incurred solely in relation to the mergers, but may not be capitalized since Expedia.com and Hotels.com were considered the targets in the transaction for accounting purposes. These costs do not directly benefit operations in any manner, would not normally be recorded by Expedia if not for the fact IAC already consolidated these entities, and are all related to the same transaction, as IAC simultaneously announced its intention to commence exchange offers for these companies in 2002. The majority of costs are for advisory services provided by investment bankers, and the amounts incurred in 2003 were pursuant to the same fee letters entered into by each of Expedia.com and Hotels.com in 2002. Given these factors, Expedia believes it is appropriate to consider these costs as one-time.

(b) Pro forma adjustments to 2002 represent the impact of the initial acquisition of a majority stake in Expedia.com, which occurred in February 2002, as if the transaction occurred as of the beginning of the periods presented. Operating income is presented on an actual basis.

Critical Accounting Policies and Estimates

The following disclosure is provided to supplement the descriptions of Expedia's accounting policies contained in Note 2 to the Expedia Audited Historical Combined Financial Statements for the years ended December 31, 2004, 2003 and 2002 attached as Annex D to this proxy statement/prospectus in regard to significant areas of judgment. Expedia management is required to make certain estimates and assumptions during the preparation of combined financial statements in accordance with generally accepted accounting principles. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the combined financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates. Because of the size of the financial statement elements to which they relate, some of Expedia's accounting policies and estimates have a more significant impact on its financial statements than others. What follows is a discussion of some of Expedia's more significant accounting policies and estimates.

How Expedia assesses the recoverability of the carrying value of long-lived assets is disclosed in Note 2. If circumstances suggest that long-lived assets may be impaired, and a review indicates that the carrying value will not be recoverable, as determined based on the projected undiscounted future cash flows, the carrying value is reduced to its estimated fair value. The determination of cash flows is based upon assumptions and forecasts that may not occur. The

December 31, 2004 balance sheet includes $7.1 billion of goodwill and intangible assets, net, and $81.4 million of fixed assets, net. Expedia updated its analysis of goodwill, intangible assets and long-lived assets during 2004, and determined that the carrying value of such assets was not impaired.

Estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 6, and reflect management's assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and the probability of realization. As of December 31, 2004, the balance of deferred tax liabilities, net, is $325.0 million. Actual income taxes could vary from these estimates due to future changes in income tax law or based upon review of Expedia's tax returns by the Internal Revenue Service, as well as operating results of Expedia that vary significantly from budgets.

Expedia accounts for stock-based compensation issued to employees in accordance with SFAS 148, "Accounting for Stock-Based Compensation Transition and Disclosure" which amends FASB Statement No. 123. This statement provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. Expedia adopted the expense recognition provision of SFAS 123 as of January 1, 2003 and provides expense for stock-based compensation for grants on and after that date on a prospective basis as provided by SFAS 148, and will continue to provide pro forma information in the notes to financial statements to provide results as if SFAS 123 had been adopted in previous years. As disclosed in the notes to financial statements, stock-based employee compensation included in net income in 2002 and through the dates of IAC's acquisition of the public's minority interest in Hotels.com on June 23, 2003 and Expedia.com on August 8, 2003 relates almost entirely to equity instruments of Hotels.com and Expedia.com. Subsequent to IAC's acquisitions of the public's minority interest in Hotels.com and Expedia.com in 2003, stock-based employee compensation included in net income relates entirely to equity instruments of IAC that were assumed in the buy-ins of Hotels.com and Expedia.com or were awarded to employees of Expedia. The fair value for the IAC options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2004 and 2003: risk-free interest rates of 3.30% and 2.78%, respectively; a dividend yield of zero; a volatility factor of 43% and 50%, respectively, based on the expected market price of IAC common stock based on historical trends; and a weighted average expected life of the options of five years. The fair value for the Hotels.com options was estimated at the date of grant using a Black- Scholes option pricing model with the following weighted-average assumptions for 2003 and 2002: risk-free interest rates of 1.1% and 3.53%, respectively; a dividend yield of zero; a volatility factor of 72% and 64%, respectively, based on the expected market price of Hotels.com common stock based on historical trends; and a weighted-average expected life of the options of five years, respectively. The fair value for the Expedia.com options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2003 and 2002: risk-free interest rates of 2.76% and 3.84%, respectively; a dividend yield of zero; a volatility factor of 50% and 55%, respectively, based on the expected market price of Expedia.com common stock based on historical trends; and a weighted-average expected life of the options of 4.5 years and 5 years, respectively. The impact on pro forma compensation expense for the year ended December 31, 2004, assuming a 1% increase in the risk-free interest rate, a 10% increase in the volatility factor, and a one year increase in the weighted average expected life of the options would be $2.0 million, $3.5 million, and $5.4 million, respectively. IAC also issues restricted stock units to Expedia employees. For restricted stock units issued, the accounting charge is measured as the fair value at the grant date and amortized ratably as non-cash compensation over the vesting term.

The prevailing accounting guidance applied by Hotels.com and Expedia.com with respect to the presentation of revenue on a gross versus a net basis is contained in Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," as later clarified by Emerging Issues Task Force No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent (EITF

99-19)." The consensus of this literature is that the presentation of revenue as "the gross amount billed to a customer because it has earned revenue from the sale of goods or services or the net amount retained (that is, the amount billed to a customer less the amount paid to a supplier) because it has earned a commission or fee" is a matter of judgment that depends on the relevant facts and circumstances. If the conclusion drawn is that Expedia performs as an agent or a broker without assuming the risks and rewards of ownership of goods, revenue should be reported on a net basis. In making an evaluation of this issue, some of the factors that should be considered are: whether Expedia is the primary obligor in the arrangement (strong indicator); whether Expedia has general inventory risk (before customer order is placed or upon customer return) (strong indicator); and whether Expedia has latitude in establishing price. EITF 99-19 clearly indicates that the evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity. The positions taken by Hotels.com and Expedia.com reflect their interpretation of their respective fact patterns as well as their qualitative weighing of the indicators outlined in EITF 99-19. See Note 2 "Summary of Significant Accounting Policies," Revenue Recognition, in the Notes to Historical Combined Financial Statements for discussion of the factors considered by Hotels.com and Expedia.com in arriving at their conclusions. Beginning January 1, 2004, as part of the integration of Expedia's businesses, Hotels.com conformed its merchant hotel business practices with those of the other Expedia businesses. As a result, Expedia commenced prospectively reporting revenue for Hotels.com on a net basis, consistent with Expedia.com's historical practice.

Some states and localities impose a transient occupancy or accommodation tax, or a form of sales tax, on the use or occupancy of hotel accommodations. Hotel operators generally collect and remit these taxes to the various tax authorities. Consistent with this practice, when a customer books a room through one of Expedia's travel services, the hotel charges taxes based on the room rate paid to the hotel, Expedia pays those taxes invoiced by the hotel and Expedia recovers an equivalent amount from the customer. Expedia does not remit occupancy taxes on the portion of the customer payment it retains, and some jurisdictions have questioned Expedia's practice in this regard. While the applicable tax provisions vary among the jurisdictions, Expedia generally believes that it is not required to remit such occupancy taxes. Expedia is engaged in discussions with tax authorities in various jurisdictions to resolve this issue, but the ultimate resolution in all jurisdictions cannot be determined at this time. Expedia does not believe, however, that the amount of liability of Expedia on account of this issue, if any, will have a material adverse effect on its past or future financial results. Expedia has established a reserve with respect to potential occupancy tax liability for prior and current periods, consistent with applicable accounting principles and in light of all current facts and circumstances. Expedia's reserves represent its best estimate of the contingent liability related to occupancy tax in respect of prior and current periods. A variety of factors could affect the amount of the liability (both past and future), which factors include, but are not limited to, the number of, and amount of revenue represented by, jurisdictions that ultimately assert a claim and prevail in assessing such additional tax or negotiate a settlement and changes in relevant statutes. Expedia notes that there are more than 7,000 taxing jurisdictions in the United States, and it is not feasible to analyze the statutes, regulations and judicial and administrative rulings in every jurisdiction. Rather, Expedia has obtained the advice of state and local tax experts with respect to tax laws of certain states and local jurisdictions that represent a large portion of Expedia's hotel revenue. It is possible that some jurisdictions may introduce new legislation regarding the imposition of occupancy taxes on businesses that arrange the bookings of hotel accommodations. Expedia will continue to monitor the issue closely and provide additional disclosure, as well as adjust the level of reserves, as developments warrant. The reserve balance at December 31, 2004 and 2003 is $14.1 million and $13.2 million, respectively. Additionally, Expedia and certain of its businesses are involved in occupancy tax related litigation, which is discussed in " Description of Business Legal Proceedings Litigation Relating to Hotel Occupancy Taxes."

Seasonality

Expedia's various businesses generally experience seasonal fluctuations, reflecting seasonal trends for the products and services that Expedia makes available. For example, traditional leisure travel supplier and agency bookings typically are highest in the first two calendar quarters of the year as consumers plan and book their spring and summer travel and then the number of bookings flattens in the last two calendar quarters of the year. Because revenue in the merchant business is recognized when the travel takes place rather than when it is booked, revenue growth typically lags bookings growth by a month or two. As a result, revenue for the last two years has been lowest in the first quarter of the year and highest in the third quarter.

Expedia's results may also be affected by seasonal fluctuations in the products and services made available by travel suppliers to consumers booking through Expedia's various businesses. For instance, during seasonal periods when demand is high, suppliers may impose blackouts that prohibit Expedia from making those products available during such periods.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 significantly changed the accounting for and disclosure of variable interest entities. Under FIN 46, a business enterprise that has a controlling financial interest in a variable interest entity would include the variable interest entity's assets, liabilities and results of operations in its consolidated financial statements. This Interpretation is different from what had been the general practice of consolidating only those entities in which an enterprise has a controlling voting interest. In December 2003, the FASB issued a revision to FIN 46 ("FIN 46R") and delayed the required implementation date of FIN 46 for entities that are not special purpose entities until March 2004. Expedia adopted FIN 46R as of March 31, 2004. The adoption of FIN 46 and FIN 46R did not have a material effect on Expedia's financial position or results of operations.

In March 2004, the FASB's Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The guidance prescribes a three-step model for determining whether an investment is other-than-temporarily impaired and requires disclosures about unrealized losses on investments. In September 2004, the FASB delayed the accounting provisions of EITF 03-1; however, the disclosure requirements remain effective for annual periods ending after December 15, 2003. The adoption of the disclosure provision of EITF 03-1 did not have any material effect on Expedia's financial position, results of operations, or cash flows. Expedia will evaluate the additional effect, if any, the remainder of EITF 03-1 will have on its combined financial statements once final guidance is issued.

On December 16, 2004, the FASB issued FASB Statement No. 123 (R), Share-Based Payment, which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation." Statement 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Public entities are required to apply Statement 123(R) for the first interim reporting period that begins after December 31, 2005.

Expedia adopted the fair-value-based method of accounting for share-based payments effective January 1, 2003 using the prospective method described in FASB Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." Currently, Expedia uses the Black-Scholes-Merton formula to estimate the value of stock options granted to employees and expects to continue to use this acceptable option valuation model upon the required adoption of Statement 123(R) on January 1, 2006. Because Statement 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date, and because Expedia adopted Statement 123 using the prospective transition method (which applied only to awards granted, modified or settled after the adoption date), compensation cost for some previously granted awards that were not recognized under Statement 123 will be recognized under Statement 123(R). Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Expedia does not believe the adoption of Statement 123(R) will have a material effect on its combined statement of operations. Expedia is currently assessing the impact of this pronouncement on its combined statement of cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on Expedia's financial condition or results of operations.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Expedia's exposure to market rate risk for changes in interest rates relates primarily to its short-term investment portfolio. Expedia invests its excess cash in debt instruments of government agencies and high quality corporate issuers. The portfolio is reviewed on a periodic basis and adjusted in the event that the credit rating of a security held in the portfolio deteriorates. At December 31, 2004 this portfolio is not material and as such, an increase or decrease in interest rates would not have a significant impact on Expedia's financial position.

Foreign Currency Exchange Risk

Expedia conducts business in certain foreign markets, primarily in Canada and the European Union. Expedia'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 Expedia has generally reinvested profits from international operations in order to grow its businesses.

As Expedia 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 Expedia is often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause Expedia to adjust its financing and operating strategies.

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

Foreign exchange gains and losses were not material to Expedia's earnings in 2004 and 2003. However, Expedia periodically reviews its strategy for hedging transaction risks. Expedia'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 fourth quarter of 2003, one of Expedia's subsidiaries entered into a cross currency swap with a notional amount of Euro 39 million, which is to mature on October 30, 2013 and is used to hedge against the change in value of an asset denominated in a currency other than the subsidiary's functional currency. This swap enables Expedia to pay Euro at a rate of the three-month EURIBOR plus 0.50% on Euro 39 million. In exchange Expedia receives 4.9% interest on $46.4 million. In addition, on April 14, 2004, one of Expedia's subsidiaries entered into a cross currency swap with a notional amount of Euro 38.2 million which is to mature on April 7, 2014 and is used to hedge against the change in value of an asset in a similar manner to the swap described above. This swap enables Expedia to pay Euro at a rate of the six-month EURIBOR plus 0.90% on Euro 38.2 million. In exchange Expedia receives 5.47% interest on $45.9 million. At the date of maturity, these agreements call for the exchange of notional amounts. The change in fair value of these cross currency swaps at December 31, 2004 resulted in an unrealized loss of $12.8 million.

Equity Price Risk

It is not customary for Expedia to make significant investments in equity securities as part of its marketable securities investment strategy.

On August 4, 2004, Expedia, through a subsidiary, made an investment in eLong, a Cayman Island company, whose principal business is the operation of an Internet-based travel business in the People's Republic of China. The purchase price of the investment was approximately $59 million in cash that represented a 30% interest in eLong, which is accounted for under the equity method at December 31, 2004. Concurrent with the original investment, eLong issued a warrant to Expedia to acquire such additional eLong shares as would be necessary to provide Expedia with a minimum aggregate investment of 51% of eLong shares on a fully diluted basis for approximately $6.21 per share.

On October 28, 2004, eLong priced its initial public offering of shares. The initial public offering resulted in the warrant becoming subject to the mark-to-market provisions of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." As such, Expedia has recorded an unrealized gain of $27.2 million, net of deferred taxes, of $16.4 million, related to the warrant that has been recorded in other comprehensive income at December 31, 2004.

On December 16, 2004, Expedia notified eLong of its intent to exercise its warrant to acquire its additional eLong shares. The transaction was completed on January 10, 2005. Following the exercise of the warrant, Expedia owns approximately 52% of the outstanding capital stock of eLong on a fully diluted basis, representing approximately 96% of the total voting power of eLong. Accordingly, Expedia began consolidating the results of eLong effective January 10, 2005.

Results of operations for the three months ended March 31, 2005 compared to the three months ended March 31, 2004

	Three months ended March 31,		
	2005	**2004**	**Percentage Change**
	(Dollars in millions)		
Revenues	$ 485.0	$ 413.3	17%
Operating Income Before Amortization	136.7	98.7	39%
Amortization of non-cash distribution and marketing expense	(0.4)	(5.0)	
Amortization of non-cash compensation expense	(38.3)	(46.9)	
Amortization of intangibles	(31.7)	(30.1)	
Operating income	$ 66.3	$ 16.7	298%
Operating income as a percentage of revenue	13.7%	4.0%	
Operating Income Before Amortization as a percentage of revenue	28.2%	23.9%	

Revenue grew 17%, primarily driven by the merchant hotel business, including revenues generated from international websites, the air business and the results from acquisitions including TripAdivsor and eLong.

Revenue from international websites increased 62%, or 56% on a local currency basis, to $99.6 million in 2005 from $61.5 million in 2004. The United Kingdom, German and Canadian websites, as well as the acquisition of Expedia Corporate Travel-Europe, contributed to the continued international growth in the merchant hotel and air businesses.

Merchant hotel revenue increased 7% driven primarily by an increase in merchant hotel room nights stayed, as well as an increase in revenue per room night. Merchant hotel room nights stayed, including rooms delivered as a component of packages, increased 4% to 7.3 million, reflecting continued growth in demand from Expedia's international websites partially offset by a decline in the domestic business. Revenue per room night increased 7% due primarily to increases in average daily room rates, partially offset by a decline in merchant hotel raw margins (defined as merchant hotel net revenue as a percent of gross bookings). The merchant hotel business continues to benefit from growth in the packages business.

Expedia's U.S. merchant hotel business continues to operate in a challenging environment due primarily to substantial competition from third party distributors, significant promotion by hotel chains of their own direct sites and high overall occupancy rates, resulting in decreased availability of favorably priced travel products and services. These trends are generally expected to continue.

Revenue from the air business increased 16% from 2004, driven primarily by a 24% increase in air tickets sold, partially offset by a decline in air revenue per ticket.

Overall revenue margins (defined as net revenue as a percent of gross bookings) decreased by 50 basis points due primarily to lower merchant hotel raw margins and lower air revenue per ticket, partially offset by higher merchant hotel average daily rates. A higher mix of air revenue also contributed to the decrease. Expedia expects these trends to continue in the near term.

Gross profit increased $62.6 million, or 20%, reflecting improved operating results driven primarily by the growth in Expedia's merchant hotel business, including increased revenues from international websites and packages. Expedia's merchant business yields higher gross profit per transaction than its agency business.

Selling and marketing expenses increased $7.3 million, or 5%, primarily reflecting the impact of increased international spending. The increase in selling and marketing expenses was driven by greater emphasis on Expedia's international businesses, which have a higher selling and marketing cost relative to revenue due to earlier stages of development. International selling and marketing expense increased 60%. The inclusion of the results of TripAdvisor also contributed to the increase in selling and marketing expense.

General and administrative expenses increased $16.0 million, or 32%, due primarily to increased headcount in website development and administrative functions, such as legal, tax, accounting and information technology at certain Expedia companies, as well as the inclusion of the results of TripAdvisor in 2005. In addition, Expedia utilized external professional services related to legal, tax and accounting projects to a greater extent in 2005 as compared to 2004. Further, Expedia incurred approximately $1.0 million of expenses in connection with the spin-off in 2005 and will continue to incur additional expenses related to the spin-off in the second and third quarters of 2005.

Depreciation expense increased $1.4 million, or 19%, due primarily to capital expenditures of $12.6 million during 2005 and 2004, partially offset by certain fixed assets becoming fully depreciated during the period.

Operating Income Before Amortization grew 39% due primarily to increased revenues, results from acquisitions, higher gross margins and operating efficiencies, partially offset by an increase in selling and marketing expense, as discussed above. Expedia expects that the second quarter growth rates in Operating Income Before Amortization will be lower than the first quarter due to an expected increase in the growth rate of selling and marketing expense relative to the first quarter and the reversal of $6.4 million of expenses associated with the resolution of a contractual dispute which benefited results in the second quarter of 2004.

Operating income grew 298% due to the increase in Operating Income Before Amortization described above as well as a decrease in non-cash compensation of $8.6 million, or 18%, a decrease in non-cash distribution and marketing expense of $4.6 million, or 91%, partially offset by an increase in amortization of intangibles of $1.6 million, or 5%. Non-cash compensation expense related primarily to the Expedia.com and Hotels.com mergers in 2003, which resulted in the conversion of all Expedia.com and Hotels.com stock options, warrants, and restricted stock into IAC equity awards. This non-cash compensation expense relates to employees of Expedia.com and Hotels.com and is recorded over the remaining vesting period of the equity awards and therefore declines over time as the awards vest. In future periods, non-cash compensation is expected to include charges related to the spin-off.

Net interest income increased $3.9 million, or 65%, as a result of higher receivable balances due from IAC and its subsidiaries, as well as higher interest rates earned in 2005 on these balances, in each case, pursuant to cash management arrangements with IAC.

Equity in the losses of unconsolidated affiliates and other income (expense) increased $2.6 million, or 167%, due primarily to an increase in foreign currency exchange gains of $2.8 million partially offset by increased equity in the losses of unconsolidated affiliates of Expedia.com.

The effective tax rate from continuing operations was 38% in 2005 as compared to 40% in 2004. The 2005 rate is higher than the federal statutory rate of 35% due principally to amortization of non-deductible non-cash compensation, state taxes, and non-deductible transaction expenses related to the spin-off. The 2004 rate is higher than the federal statutory rate of 35% due principally to non-deductible amortization of non-cash compensation, state taxes, and foreign losses for which no tax benefit was recognized.

Minority interest in loss from consolidated subsidiaries increased $0.3 million in 2005. Minority interest in the loss from consolidated subsidiaries in 2005 represents the minority interest in TripAdvisor, eLong, Inc. and Egencia SA.

Financial Position, Liquidity And Capital Resources

As of March 31, 2005, Expedia had $322.9 million of cash on hand and $711.4 million in combined deferred merchant bookings and deferred revenue.

Net cash provided by operating activities was approximately $497.7 million in 2005 and $440.4 million in 2004. Cash flows from the merchant hotel business models of Expedia.com and Hotels.com contributed significantly to the cash provided by operating activities. The increase in working capital cash flow was $366.7 million in 2005 as compared to $344.9 million in 2004, primarily reflecting changes in accounts and notes receivable, deferred merchant bookings and deferred revenue and in accounts payable and accrued expenses.

For the quarter ended March 31, 2005 and 2004, cash flows provided by deferred merchant bookings and deferred revenue were $344.2 million and $313.2 million, respectively. In the merchant hotel business, Expedia and Hotels.com receive cash from customers on hotel and air bookings before the stay or flight has occurred. These amounts are classified on Expedia's balance sheet as deferred merchant bookings. The payment to the suppliers related to these bookings is not made until approximately one week after booking for air travel and, for all other merchant bookings, after the customer's use and subsequent billing from the supplier. Therefore, especially for the hotel business, which is the majority of Expedia's merchant bookings, there is generally a significant period of time from the receipt of the cash from the customers to the payment to the suppliers. However, over time Expedia has paid its suppliers faster and Expedia expects this trend to continue. As long as the merchant hotel businesses continue to grow positively, as they have historically, and Expedia's business model does not change, Expedia expects that the change in working capital will continue to be positive. If these businesses were to decline or if the model otherwise changed, it would negatively impact working capital. There is a seasonal element to cash flow related to merchant bookings, as the first half of the year has traditionally been a period where hotel bookings significantly exceed stays, resulting in much higher cash flow related to working capital. This trend reverses in the later part of the year. While Expedia expects the seasonality to continue, working capital related to merchant bookings may be impacted by changes in growth rates which might counteract the anticipated seasonality.

Cash provided by investing activities in 2005 of $1.8 million resulted primarily from net cash acquired related to the exercise of eLong warrant, partially offset by capital expeditures of $12.6 million. Cash provided by investing activities in 2004 of $678.5 million relates primarily to net proceeds of $693.6 million generated from the sale of marketable securities partially offset by capital expenditures of $11.6 million.

Cash used in financing activities in 2005 and 2004 of $345.1 million and $959.9 million were primarily due to net transfers to IAC, pursuant to cash management agreements. These net transfers relate primarily to the transfer of Expedia's excess cash to IAC in order to be centrally managed by IAC's treasury function in 2004.

Expedia anticipates that it will continue to invest in the development and expansion of its overall operations. In the event Expedia makes acquisitions, this may result in the reduction of its cash balance or the incurrence of debt. Furthermore, future capital expenditures may be higher than current amounts over the next several years.

Future demand for Expedia's products and services may be impacted by future economic and political developments. Expedia believes that its financial situation would enable it to absorb a significant potential downturn in business. As previously discussed, a significant amount of operating cash flow is from increased deferred merchant bookings and the period between receipt of cash from the customer and payment of cash to the vendor. A change in this historical pattern could result in a decrease in operating cash flow, or negative operating cash flows in certain periods.

Upon completion of the spin-off, Expedia will transfer to IAC all cash in excess of $100 million, excluding the cash held by eLong, and all intercompany receivable and payable balances will be extinguished. In addition, Expedia expects to enter into a revolving credit facility for up to $1 billion to be effective upon completion of the spin-off, of which Expedia anticipates drawing down $150 million concurrent with the spin-off. As a result, in the opinion of Expedia's management, available cash, internally generated funds and available borrowings, in the form of the revolving credit facility, will provide sufficient capital resources to meet Expedia's foreseeable needs.

Reconciliation of Operating Income Before Amortization

The following table is a reconciliation of Operating Income Before Amortization to operating income and net income for the three months ended March 31, 2005 and 2004.

	Three months ended March 31,	
	2005	**2004**
	(In Thousands)	
Operating Income Before Amortization	$ 136,722	$ 98,673
Amortization of non-cash distribution and marketing expense	(432)	(5,038)
Amortization of non-cash compensation expense	(38,300)	(46,869)
Amortization of intangibles	(31,665)	(30,089)
Operating income	66,325	16,677
Interest income	9,799	6,417
Interest expense		(491)
Equity in losses of unconsolidated affiliates and other	1,034	(1,540)
Income tax expense	(29,385)	(8,344)
Minority interest in loss of consolidated subsidiaries	256	
Net income	$ 48,029	$ 12,719

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Expedia's exposure to market rate risk for changes in interest rates relates primarily to its short-term investment portfolio. Expedia invests its excess cash in debt instruments of government agencies and high quality corporate issuers. The portfolio is reviewed on a periodic basis and adjusted in the event that an impairment of a security is deemed to be other than temporary. At March 31, 2005, Expedia had no investments in marketable securities.

Foreign Currency Exchange Risk

Expedia conducts business in certain foreign markets, primarily in the European Union and Canada. Expedia'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 Expedia has generally reinvested profits from international operations in order to grow the businesses.

As Expedia 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 Expedia is often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause Expedia to adjust its financing and operating strategies.

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

Foreign exchange gains and losses were not material to Expedia's earnings in the first quarter of 2005 and 2004. However, Expedia periodically reviews its strategy for hedging transaction risks. Expedia'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 fourth quarter of 2003, one of Expedia's subsidiaries entered into a cross currency swap with a notional amount of Euro 39 million which is to mature on October 30, 2013 and is used to hedge against the change in value of an asset denominated in a currency other than the subsidiary's functional currency. This swap enables Expedia to pay Euro at a rate of the three-month EURIBOR plus 0.50% on Euro 39 million. In exchange Expedia receives 4.9% interest on $46.4 million. In addition, on April 14, 2004, one of Expedia's subsidiaries entered into a cross currency swap with a notional amount of Euro 38.2 million which is to mature on April 7, 2014 and is used to hedge against the change in value of an asset in a similar manner to the swap described above. This swap enables Expedia to pay Euro at a rate of the six-month EURIBOR plus 0.90% on Euro 38.2 million. In exchange Expedia receives 5.47% interest on $45.9 million. At the date of maturity, these agreements call for the exchange of notional amounts. The changes in fair value of these cross currency swaps at March 31, 2005 and 2004 resulted in unrealized losses of $10.5 million and $0.5 million, respectively.

Equity Price Risk

It is not customary for Expedia to make significant investments in equity securities as part of its marketable securities investment strategy.

On August 4, 2004, Expedia, through a subsidiary, made an investment in eLong, a Cayman Island company, whose principal business is the operation of an Internet based travel business in the People's Republic of China. The purchase price of the investment was approximately $59 million in cash that represented a 30% interest in eLong which was accounted for under the equity method at December 31, 2004. Concurrent with the original investment, eLong issued a warrant to Expedia to acquire such additional eLong shares as would be necessary to provide Expedia with a minimum aggregate investment of 51% of eLong shares on a fully diluted basis for approximately $6.21 per share.

On December 16, 2004, Expedia notified eLong of its intent to exercise its warrant to acquire its additional eLong shares. The transaction was completed on January 10, 2005. Following the exercise of the warrant, Expedia owns approximately 52% of the outstanding capital stock of eLong on a fully diluted basis, representing approximately 96% of the total voting power of eLong. Accordingly, Expedia has consolidated the results of eLong effective January 10, 2005.

Expedia Management

Expedia Board of Directors and Executive Officers

The following table sets forth information as to persons who are expected to serve as Expedia directors and executive officers immediately following the spin-off. Expedia currently anticipates that its Board of Directors will include nine directors. For purposes of the information regarding Expedia's executive officers for periods prior to April 2005 set forth immediately below, the term Expedia refers to Expedia, Inc., the Washington corporation, through which Expedia.com has historically been, and currently is, operated and managed.

Messrs. Diller and Kaufman are current directors of IAC and are also expected to serve as directors of Expedia.

Name	Age	Title
Barry Diller	63	Chairman of the Board, Senior Executive
Dara Khosrowshahi	36	Director, Chief Executive Officer
Victor A. Kaufman	61	Director, Vice Chairman
A. George "Skip" Battle	61	Director
Robert R. Bennett	47	Director
Jonathan Dolgen	60	Director
David Goldhill	44	Director
Peter Kern	38	Director
John C. Malone	64	Director
Chris Bellairs	44	Chief Financial Officer
Keenan M. Conder	42	Senior Vice President, General Counsel and Secretary
Kathleen K. Dellplain	46	Executive Vice President, Human Resources
Paul Onnen	43	Executive Vice President, Technology
William Ruckelshaus	40	Senior Vice President, Strategy andPlanning

Directors

Background information about those individuals who are expected to serve as directors of Expedia appears below.

Barry Diller, age 63, has been a director and the Chairman and Chief Executive Officer of IAC (and its predecessors) since August 1995. He was Chairman of the Board and Chief Executive Officer of QVC, Inc. from December 1992 through December 1994. From 1984 to 1992, Mr. Diller served as the Chairman of the Board and Chief Executive Officer of Fox, Inc. Prior to joining Fox, Inc., Mr. Diller served for 10 years as Chairman of the Board and Chief Executive Officer of Paramount Pictures Corporation. Mr. Diller is currently a member of the boards of directors of The Washington Post Company and The Coca-Cola Company. He also serves on the Board of the Museum of Television and Radio, Conservation International and The Educational Broadcasting Company. In addition, Mr. Diller is a member of the Board of Councilors for the University of Southern California's School of Cinema Television, the New York University Board of Trustees, the Tisch School of the Arts Dean's Council and the Executive Board for the Medical Sciences of University of California, Los Angeles. Following completion of the spin-off, Mr. Diller will serve as the Chairman of the Board and Senior Executive of Expedia in addition to continuing to serve in his current roles at IAC.

Dara Khosrowshahi, age 36, will serve as Chief Executive Officer of Expedia upon completion of the spin-off. Mr. Khosrowshahi currently serves as the Chief Executive Officer of IAC Travel, which position he has held since January 2005. Prior to his tenure as Chief Executive Officer of IAC Travel, Mr. Khosrowshahi served as Executive Vice President and Chief Financial Officer of IAC from January 2002. Mr. Khosrowshahi previously served as IAC's Executive Vice President, Operations and Strategic Planning, from July 2000 to January 2002. From August 1999 to July 2000, Mr. Khosrowshahi served as President, USA Networks Interactive, a division of IAC. Mr. Khosrowshahi joined IAC in 1998 as Vice President of Strategic Planning, and was later promoted to Senior Vice President in May 1999. Prior to joining IAC, Mr. Khosrowshahi worked at Allen & Company LLC from 1991 to 1998, where he served as Vice President from 1995 to 1998.

Victor A. Kaufman, age 61, has been a director of IAC (and its predecessors) since December 1996 and has been Vice Chairman of IAC since October 1999. Previously, Mr. Kaufman served in the Office of the Chairman from January 1997 to November 1997 and as Chief Financial Officer of IAC from November 1997 to October 1999. Prior to his tenure with IAC, Mr. Kaufman served as Chairman and Chief Executive Officer of Savoy Pictures Entertainment, Inc. from March 1992 and as a director of Savoy from February 1992. Mr. Kaufman was the founding Chairman and Chief Executive Officer of Tri-Star Pictures, Inc. and served in such capacities from 1983 until December 1987, at which time he became President and Chief Executive Officer of Tri-Star's successor company, Columbia Pictures Entertainment, Inc. He resigned from these positions at the end of 1989 following the acquisition of Columbia by Sony USA, Inc. Mr. Kaufman joined Columbia in 1974 and served in a variety of senior positions at Columbia and its affiliates prior to the founding of Tri-Star. Following completion of the spin-off, Mr. Kaufman will serve as director and Vice Chairman of Expedia in addition to continuing to serve in his current roles at IAC.

A. George "Skip" Battle, age 61, has served as Executive Chairman of Ask Jeeves since January 1, 2004. He was Chief Executive Officer of Ask Jeeves from December 2000 until December 31, 2003. Prior to joining Ask Jeeves, from 1995 to 2000, Mr. Battle was a business consultant and investor and served as a member of the boards of directors of several technology companies. Prior thereto, Mr. Battle served with Andersen Consulting in various roles including Worldwide Managing Partner, Market Development and as a member of the firm's Executive Committee, Global Management Council and Partner Income Committee. Mr. Battle retired from Andersen Consulting in June 1995. Mr. Battle is currently Chairman of the Board of Fair, Isaac and Company, Inc. and a director of Masters Select Equity Fund, Masters Select International Fund, Masters Select Value Fund and Masters Select Smaller Company Fund (all registered investment companies), and two non-profit organizations. In 2004, Mr. Battle also served as a director of PeopleSoft, Inc., until its acquisition by Oracle Corp, and of Barra, Inc. Mr. Battle holds a BA degree in economics from Dartmouth College and an MBA degree from the Stanford Graduate School of Business.

Robert R. Bennett, age 47, has served as President and Chief Executive Officer of Liberty Media Corporation since April 1997 and a director of Liberty since September 1994. Mr. Bennett has held various other executive positions with Liberty since its inception in 1990. Mr. Bennett served as Executive Vice President of Tele-Communications, Inc. ("TCI") from April 1997 to March 1999. Mr. Bennett is a director and Vice-Chairman of the Board of Liberty Media International, Inc. ("LMI"). Mr. Bennett is also a director of OpenTV Corp. and UnitedGlobalCom, Inc. ("UGC"), a subsidiary of LMI.

Jonathan Dolgen, age 60, has been a private investor and has served as a Senior Advisor to Viacom, Inc. ("Viacom"), a worldwide entertainment and media company, where he provides advisory services to the current Chairman and Chief Executive of Viacom, or others designated by him, on an as requested basis, since July 2004. Mr. Dolgen has been a principal of Wood River Ventures, LLC, a private start-up entity that is seeking investment and other opportunities primarily in the media sector, since September 2004. From April 1994 to July 2004, Mr. Dolgen served as Chairman and Chief Executive Officer of the Viacom Entertainment Group, a unit of Viacom, where he oversaw various operations of Viacom's businesses, which during 2003 and 2004 primarily included the operations engaged in motion picture production and distribution, television production and distribution, regional theme parks, theatrical exhibition and publishing. Mr. Dolgen began his career in the entertainment industry in 1976, and prior to joining the Viacom Entertainment Group, served in various executive positions at Columbia Pictures Industries, Inc., Twentieth Century Fox and Fox, Inc. and Sony Pictures Entertainment. Mr. Dolgen holds a B.S. degree from Cornell University and a J.D. degree from New York University.

David Goldhill, 44, is a private investor. He is chairman (having served as chief executive officer from 1996-2000) of Independent Network Television Holdings Ltd., the owner of the TV3 Russia broadcast network. From 2002-04, he was president and chief operating officer of Universal Television, a division of Universal Studios. From 1993-98, he was executive vice president and chief financial officer of Act III Communications, a holding company with interests in broadcast stations, movie theaters, magazines, and film/television production. Mr. Goldhill began his career as an investment banker with Morgan Stanley and Lehman Brothers. Mr. Goldhill is also a director of eLong, Inc.

Peter Kern, 38, currently is a Managing Director of InterMedia Partners, a private equity firm that invests in media companies. Prior to working at InterMedia, Mr. Kern was Senior Managing Director and Principal of Alpine Capital LLC, a media investment and advisory firm. Mr. Kern joined Alpine when he merged his own firm, Gemini Associates, Inc., with Alpine in the summer of 2001. Gemini was founded as a large-cap M&A and strategic advisory firm in 1996, and Mr. Kern served as its President. Prior to founding Gemini Associates, Mr. Kern was at the Home Shopping Network and Whittle Communications. Mr. Kern holds a B.S. from the Wharton School at the University of Pennsylvania.

John C. Malone, age 64, has served as Chairman of the Board and a director of Liberty Media Corporation since 1990. Mr. Malone has served as the President, Chief Executive Officer and Chairman of the Board of LMI since March 2004. Mr. Malone served as Chairman of the Board and a director of Liberty Satellite & Technology, Inc. from December 1996 to August 2000. Mr. Malone also served as Chairman of the Board of TCI from November 1996 to March 1999; and as a director and Chief Executive Officer of TCI from January 1994 to March 1999. Mr. Malone is also a director of The Bank of New York, LMI and UGC.

Executive Officers

Background information about Expedia's executive officers who are not expected to serve as directors of Expedia appears below.

Chris Bellairs, age 44, will serve as Chief Financial Officer of Expedia upon completion of the spin-off. Mr. Bellairs currently serves as Chief Financial Officer of IAC Travel, which position he has held since May 2004. Prior to joining IAC Travel, Mr. Bellairs was employed by PepsiCo, Inc. in its Immediate Consumption Division, where he served as Chief Financial Officer from September 2001 to April 2004. From February 1996 to August 2001, Mr. Bellairs held a variety of different financial positions at PepsiCo, including Finance Vice President of the Food Service and Vending Division and various Finance Director positions at Frito Lay North America. Prior to joining PepsiCo, Mr. Bellairs worked for Proctor & Gamble from June 1991 to January 1996, where he held various financial positions, including Manager of Financial Planning and Analysis, as well as profit forecaster and financial analyst.

Keenan M. Conder, age 42, will serve as Senior Vice President, General Counsel and Secretary of Expedia upon completion of the spin-off. Mr. Conder currently serves as Senior Vice President and General Counsel of IAC Travel, which position he has held since March 2004. Prior to joining IAC Travel, Mr. Conder served as Senior Vice President and General Counsel of Travelocity.com LP from May 2002 to February 2004, and as Vice President and Associate General Counsel of Travelocity from June 2000 to April 2002. Prior to joining Travelocity, Mr. Conder held various positions in the legal department at Sabre Inc. from April 1996 to June 2000, most recently as Senior Managing Attorney from April 1998 to June 2000. Prior to that, Mr. Conder worked as an attorney in the legal department of American Airlines from October 1994 to April 1996, and prior to that with Munsch, Hardt, Kopf, Harr & Dinan, the Dallas law firm.

Kathleen K. Dellplain, age 46, will serve as Executive Vice President, Human Resources of Expedia upon completion of the spin-off. Ms. Dellplain currently serves as Executive Vice President of Human Resources of IAC Travel, which position she has held since September 2003. Prior to the formation of IAC Travel in September 2003, Ms. Dellplain served as Executive Vice President of Human Resources of Expedia from November 1999. Ms. Dellplain was initially hired by the Microsoft Corporation in October 1999 to build the human resources function of Expedia, then a subsidiary of Microsoft, in anticipation of Expedia's initial public offering. Previously Ms. Dellplain served as Vice President of Human Resources for IDX Systems Corporation from July 1997 to October 1999. Prior to that, Ms. Dellplain worked as the Senior Director of Human Resources for PHAMIS, Inc. from 1990 until its merger with IDX Systems Corporation in 1997.

Paul Onnen, age 43, joined Expedia in May 2005 as Executive Vice President, Technology, overseeing the areas of Information Technology and Product Development. Mr. Onnen served as Senior Vice President & Chief Technology Officer at WebMD Corporation from February 2003 to April 2004, and as Executive Vice President & Chief Information Officer at Nordstrom.Com from January 2000 to February 2002. Prior to his tenure at Nordstrom.Com, Mr. Onnen served as President & Chief Technology Officer at Punch Networks from 1998 to 2000 and prior to that, in a number of capacities in research & development in software engineering for various technology companies. Mr. Onnen received a Bachelors Degree in Mathematics & Physics from St. Olaf College and a Masters degree in Computer Science from the University of Wisconsin Madison.

William Ruckelshaus, age 40, will serve as Senior Vice President, Strategy and Planning of Expedia upon completion of the spin-off. Mr. Ruckelshaus currently serves as Senior Vice President of Strategy and Planning of IAC Travel, which position he has held since September 2003. Prior to the formation of IAC Travel in September 2003, Mr. Ruckelshaus served as Senior Vice President of Strategy and Planning of Expedia, which position he held since July 2002. Prior to joining Expedia in July 2002, Mr. Ruckelshaus served as Director of Mergers and Acquisitions for Credit Suisse First Boston's Technology Group from 2000 to June 2002, where he advised the firm's software and services clients in a variety of strategic transactions. Prior to his tenure with Credit Suisse First Boston, Mr. Ruckelshaus served first as Vice President, and then as Director, of Mergers and Acquisitions for Volpe Browne Whelan & Company from 1997 to 2000. Prior to that, Mr. Ruckelshaus worked in the Planning Department at PepsiCo's Frito-Lay Division from 1993 to 1997. Prior to joining PepsiCo, Mr. Ruckelshaus was a Consultant at Booz-Allen & Hamilton from 1989 to 1991.

Committees of Expedia's Board of Directors

Concurrent with the completion of the spin-off, the Expedia Board of Directors will establish the following standing committees: the Executive Committee, the Audit Committee and the Compensation/Benefits Committee. Expedia will be subject to the Marketplace Rules of The Nasdaq Stock Market, Inc. The Marketplace Rules exempt "Controlled Companies," or companies of which more than 50% of the voting power is held by an individual, group or another company, from certain requirements including a standing nominating committee of the Board of Directors. Expedia will qualify as a Controlled Company, and therefore will not have a nominating committee. Upon completion of the spin-off, Expedia's Board of Directors will form the following committees, with committee membership to be determined:

Audit Committee. The Audit Committee of the Expedia Board of Directors will consist of three persons and the composition of the committee will satisfy the independence requirements under the current standards imposed by the rules of the SEC and the Marketplace Rules. The Expedia Board will determine which member of the Audit Committee is an "audit committee financial expert," as such term is defined in the regulations promulgated under the Securities Exchange Act of 1934.

The Audit Committee will function pursuant to a written charter adopted by the Expedia Board of Directors, pursuant to which it will be granted the responsibilities and authority necessary to comply with Rule 10A-3 of the Securities Exchange Act. The Audit Committee will be appointed by the Board to assist the Board with a variety of matters including monitoring (1) the integrity of the financial statements of Expedia, (2) the independent auditor's qualifications and independence, (3) the performance of Expedia's internal audit function and independent auditors, and (4) the compliance by Expedia with legal and regulatory requirements.

Compensation/Benefits Committee. The Compensation/Benefits Committee will be authorized to exercise all of the powers of the Board of Directors with respect to matters pertaining to compensation and benefits, including, but not limited to, salary matters, incentive/bonus plans, stock compensation plans, investment programs and insurance plans. None of the members of the Compensation/Benefits Committee is expected to be an employee of Expedia.

Executive Committee. The Executive Committee of the Board of Directors will have all the power and authority of the Board of Directors of Expedia, except those powers specifically reserved to the Board by Delaware law or Expedia's organizational documents.

Other Committees. In addition to the foregoing committees, Expedia's Board of Directors, by resolution, may from time to time establish other committees of the Expedia Board of Directors, consisting of one or more of its directors.

Compensation of Expedia Executive Officers

The following table presents information concerning total compensation paid by IAC during 2004 to (i) the individual who will be Expedia's Chief Executive Officer and (ii) each Expedia executive officer who was among the four most highly-compensated executive officers of Expedia (the "Expedia Named Executive Officers") based on 2004 compensation. These amounts do not reflect the compensation such individuals will receive following the spin-off. In the case of Messrs. Diller, Kaufman and Khosrowshahi, information is provided for the last three fiscal years and reflects compensation paid to them in their capacities as corporate officers of IAC. Share information set forth below does not give effect to the the spin-off or the one-for-two reverse stock split that IAC expects to complete immediately prior to the spin-off. For a discussion of the adjustments with respect to IAC compensatory equity-based awards in connection with the spin-off and the one-for-two reverse stock split, see "The Spin-Off Proposal Treatment of Outstanding IAC Compensatory Equity-Based Awards."

Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	**Fiscal Year**	**Salary($)**	**Bonus($)**	**Other Annual Compensation($)(1)**	**Restricted Stock Awards($)(2)**	**All Other Compensation($)**
Barry Diller*	2004	930,000	1,600,000	950,214(3)		105,106(4)(5)
Chairman and Senior	2003	500,000	3,250,000(6)	1,387,833(3)		81,966(4)(5)
Executive	2002	500,000	2,750,000(7)	707,861(3)		144,438(4)(5)
Victor A. Kaufman*	2004	650,000	1,400,000	140,960(8)	1,985,760(9)	6,150(5)
Vice Chairman	2003	650,000	3,000,000		2,777,913	6,000(5)
	2002	650,000	2,500,000		4,269,300	5,500(5)
Dara Khosrowshahi*	2004	550,000	1,200,000		1,985,760(9)	6,150(5)
Chief Executive Officer	2003	550,000	2,000,000(6)	125,000(10)	2,449,621	6,000(5)
	2002	546,154	1,125,000(7)	56,250(11)	2,247,000	5,500(5)
Chris Bellairs	2004	143,712(12)	218,541(13)	87,327(14)	1,439,671(9)	(5)
Chief Financial Officer						
William Ruckelshaus	2004	250,000	70,000		297,845	4,477(5)
Senior Vice President, Strategy and Planning						

* Compensation received in respect of individual's services as a corporate officer of IAC.

(1) Disclosure of perquisites and other personal benefits, securities or property received by each of the executive officers in the table above is only required where the aggregate amount of such compensation exceeded the lesser of $50,000 or 10% of the total of the executive officer's salary and bonus for the year.

(2) Reflects the dollar value of annual awards of restricted stock units, calculated by multiplying the closing market price of the IAC common stock on the date of the grant by the number of units awarded. Restricted stock unit awards in respect of annual performance for a given fiscal year are generally granted in February of the following fiscal year. Restricted stock unit awards granted in early 2003 with respect to the 2002 fiscal year generally vest over five years, with 25% vesting on the second, third, fourth and fifth anniversaries of the date of grant. Restricted stock unit awards granted in early 2004 and 2005 with respect to the 2003 and 2004 fiscal years, respectively, generally vest in equal installments over five years on the anniversary of the date of grant.

(3) Includes the value of personal benefits received by Mr. Diller, including $832,334 in 2004, $889,579 in 2003 and $435,507 in 2002, in each case, attributable to his personal use of an aircraft jointly owned by IAC and Nineteen Forty CC Inc., an entity owned by Mr. Diller (without offset for the value of his ownership interest in the aircraft, see "Certain IAC Relationships and Related Party Transactions Relationships with Officers and Directors") and related tax payments in 2003 and 2002. 2004 amounts are net of an aggregate of $168,643 in reimbursements to IAC by Mr. Diller for certain personal use of the aircraft. Also includes $406,250 in 2003 and $137,500 in 2002, in each case, reflecting the 20% discount upon the conversion of deferred cash bonus amounts into shares of IAC common stock pursuant to IAC's 2003 and 2002 Bonus Stock Purchase Programs (described in Notes 6 and 7 below), respectively. 2003 amounts reflect $56,567 that was erroneously not reported in the 2003 proxy statement, primarily relating to the personal use of certain IAC office space.

(4)

Mr. Diller has an interest-free, secured, non-recourse promissory note in the amount of $4,997,779 payable to IAC, which was used to purchase 883,976 shares of IAC common stock in August 1995. As a result, Mr. Diller had non-cash compensation for imputed interest of $98,956 in 2004, $75,966 in 2003 and $138,938 in 2002.

(5)

Includes IAC's matching contributions under its 401(k) Retirement Savings Plan. Under the IAC 401(k) Plan as in effect through December 31, 2004, IAC matches $.50 for each dollar a participant contributes up to the first 6% of compensation. For fiscal 2002, IAC's matching contribution for each of Messrs. Diller, Kaufman and Khosrowshahi was $5,500. For fiscal 2003, IAC's matching contribution for each of Messrs. Diller, Kaufman and Khosrowshahi was $6,000. For fiscal 2004, IAC's matching contribution for each of Messrs. Diller, Kaufman and Khosrowshahi was $6,150 and for Mr. Ruckelshaus was $4,477.

(6)

Of this amount, Messrs. Diller and Khosrowshahi elected to defer $1,625,000 and $500,000, respectively, under IAC's 2003 Bonus Stock Purchase Program. Under the 2003 Bonus Stock Purchase Program, in lieu of receiving a cash payment for the entire amount of their 2003 bonuses, all bonus eligible employees of IAC had a right to elect to defer up to 50% of the value of their 2003 bonus payments. Deferred amounts were converted into shares of IAC common stock at a 20% discount to the then current market value of IAC common stock, as determined in accordance with the terms of the program.

(7)

Of this amount, Messrs. Diller and Khosrowshahi elected to defer $550,000 and $225,000, respectively, under IAC's 2002 Bonus Stock Purchase Program. Under the 2002 Bonus Stock Purchase Program, in lieu of receiving a cash payment for the entire amount of their 2002 bonuses, all bonus eligible employees of IAC had a right to elect to defer up to 50% of the value of their 2002 bonus payments. Deferred amounts were converted into shares of IAC common stock at a 20% discount to the then current market value of IAC common stock, as determined in accordance with the terms of the program.

(8)

Primarily reflects the deemed benefit to Mr. Kaufman in the amount of $135,000 resulting from IAC's investment in a start-up venture controlled by Mr. Kaufman. See "Certain IAC Relationships and Related Party Transactions Relationships with Officers and Directors."

(9)

Represents the dollar value of awards of restricted stock units, calculated by multiplying the closing market price of the IAC common stock on the date of grant by the number of units awarded. As of December 31, 2004 (including restricted stock units in respect of 2004 performance granted in early 2005), Messrs. Kaufman, Khosrowshahi, Bellairs and Ruckelshaus held 363,827, 263,182, 82,271 and 38,919 restricted stock units, respectively. The value of the shares underlying these restricted stock units as of December 31, 2004 was approximately $10,048,901, $7,269,087, $2,272,325 and $1,074,943, respectively. Restricted stock units vest over time as provided in the agreements governing the respective awards (described in Note 2 above).

(10)

Reflects the 20% discount upon the conversion of deferred cash bonus amounts into shares of IAC common stock pursuant to the 2003 Bonus Stock Purchase Program (described in Note 6 above).

(11)

Reflects the 20% discount upon the conversion of deferred cash bonus amounts into shares of IAC common stock pursuant to the 2002 Bonus Stock Purchase Program (described in Note 7 above).

(12)

Reflects salary paid to Mr. Bellairs in respect of the period commencing on May 11, 2004, the date on which he joined IAC Travel as Chief Financial Officer, and ending on December 31, 2004.

(13)

Mr. Bellairs received $150,000 of his 2004 bonus in the form of signing bonus upon his commencement of employment with IAC Travel.

(14)

Represents a moving allowance.

Stock Option Information

No options to purchase shares of IAC common stock were granted to the Expedia Named Executive Officers during the year ended December 31, 2004. The table below presents information concerning the exercise of stock options by the Expedia Named Executive Officers during the year ended December 31, 2004, and the fiscal year-end value of all unexercised options held by the Expedia Named Executive Officers. Share information set forth below does not give effect to the the spin-off or the one-for-two reverse stock split that IAC expects to complete immediately prior to the spin-off. For a discussion of the adjustments with respect to IAC compensatory equity-based awards in connection with the spin-off and the one-for-two reverse stock split, see "The Spin-Off Proposal Treatment of Outstanding IAC Compensatory Equity- Based Awards."

Aggregated IAC Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

			Number of Unexercised Options Held at Year End(#)		Value of Unexercised In-the-Money Options at Year End($)(2)	
Name	**Acquired On Exercise(#)**	**Value Realized($)(1)**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Barry Diller Chairman and Senior Executive			41,845,888		849,932,705	
Victor A. Kaufman Vice Chairman	220,000	3,245,665	1,662,500	112,500	5,923,125	427,500
Dara Khosrowshahi Chief Executive Officer			955,839	62,500	5,389,862	237,500
Chris Bellairs Chief Financial Officer						
William Ruckelshaus Senior Vice President, Strategy and Planning	217,868	1,872,638	625	1,070	7,075	12,112

(1) Represents the difference between the exercise price of the options and the sale price of IAC common stock on the date of exercise and does not exclude the U.S. federal and state taxes due upon exercise.

(2) Represents the difference between $27.62, the closing price of IAC common stock on December 31, 2004, and the exercise price of the options, and does not exclude the U.S. federal and state taxes due upon exercise.

Certain Agreements with Expedia Executive Officers

Mr. Khosrowshahi. IAC has amended the outstanding equity awards held by Dara Khosrowshahi, Chief Executive Officer of Expedia, to provide that in the event of Mr. Khosrowshahi's termination of employment without cause, there will be full acceleration of the vesting of the awards to the date of termination in the manner set forth below.

The following information does not give effect to the spin-off or the one-for-two reverse stock split that IAC expects to complete immediately prior to the spin-off. For a discussion of the adjustments with respect to IAC compensatory equity-based awards in connection with the spin-off and the one-for-two reverse stock split, see "The Spin-Off Proposal Treatment of Outstanding IAC Compensatory Equity-Based Awards."

Acceleration of vesting of all currently outstanding restricted stock units (RSUs) on the date of Mr. Khosrowshahi's termination of employment. Mr. Khosrowshahi currently holds unvested RSUs under three awards, covering a total of 263,185 shares of IAC common stock. The unvested RSUs will convert into RSUs with respect to Expedia common stock in connection with the spin-off.

Acceleration of vesting of 62,500 stock options to purchase shares of IAC common stock on the date of termination of employment if termination is prior to December 16, 2005. All options that are vested on the date of termination, including those accelerated, will remain exercisable for a period of 24 months from the date of termination or until the stated expiration date of the option, whichever is shorter.

Termination of employment without cause will include the resignation by Mr. Khosrowshahi for "good reason," which is defined as an adverse change in Mr. Khosrowshahi's powers and duties, such that new powers and duties are inconsistent with Mr. Khosrowshahi's position and status.

In connection with the foregoing arrangements, Mr. Khosrowshahi has agreed not to compete with Expedia's businesses during the term of his employment with Expedia and for a two-year period thereafter.

Mr. Ruckelshaus. For purposes of the information set forth immediately below, for periods prior to April 2005, the term Expedia refers to Expedia, Inc., the Washington corporation, through which Expedia.com has historically been, and currently is, operated and managed. On July 5, 2002, Expedia and Mr. Ruckelshaus entered into an employment agreement in connection with his employment as Vice President, Corporate Development of Expedia. This agreement was amended on August 8, 2003 (the "Effective Date") to reflect the appointment of Mr. Ruckelshaus as Senior Vice President, Corporate Development of Expedia. Mr. Ruckelshaus' employment agreement was not amended further in connection with his appointment as Senior Vice President, Strategy and Planning of IAC Travel. The amended employment agreement provides that Mr. Ruckelshaus shall receive an annual base salary of $250,000 per year and shall be eligible to receive annual discretionary bonuses. The amended employment agreement expires on July 15, 2005.

In connection with the amendment of his employment agreement, Mr. Ruckelshaus received a grant of 17,500 IAC restricted stock units, which vest in equal installments on the first four anniversaries of the Effective Date. Upon a change of control of IAC, 100% of these restricted stock units shall immediately vest. The unvested portion of Mr. Ruckelshaus' restricted stock unit award described above will be adjusted to give effect to the spin-off and the one-for-two reverse stock split as described under the caption "The Spin-Off Proposal Treatment of Outstanding IAC Compensatory Equity-Based Awards."

In addition, upon termination of Mr. Ruckelshaus' employment for any reason other than death, disability or cause, or if Mr. Ruckelshaus terminates his employment for "good reason," the agreement provides that Expedia would be required to pay Mr. Ruckelshaus his base salary through the date that is one year from his date of termination or resignation.

Expedia, Inc. 2005 Stock and Annual Incentive Plan

Introduction

Prior to the completion of the spin-off Expedia expects to adopt the Expedia, Inc. 2005 Stock and Annual Incentive Plan (the "2005 Incentive Plan"). The purpose of the 2005 Incentive Plan will be to give Expedia a competitive advantage in attracting, retaining and motivating officers and employees and to provide Expedia with the ability to provide incentives more directly linked to the profitability of

Expedia's businesses and increases in stockholder value. In addition, the 2005 Incentive Plan is expected to provide for the assumption of awards pursuant to the adjustment of awards granted under current plans of IAC and its subsidiaries, as described in the Employee Matters Agreement. See "Treatment of Outstanding IAC Compensation Equity-Based Awards."

Description

The 2005 Incentive Plan is expected to contain important features that are summarized below.

Administration

The 2005 Incentive Plan will be administered by the Compensation/Benefits Committee or such other committee of the Board as the Board of Directors of Expedia may from time to time designate (the "Committee"). Among other things, the Committee will have the authority to select individuals to whom awards may be granted, to determine the type of award as well as the number of shares of Expedia common stock to be covered by each award, and to determine the terms and conditions of any such awards.

Eligibility

In addition to individuals who hold outstanding adjusted awards, persons who serve or agree to serve as officers, employees, non-employee directors or consultants of Expedia and its subsidiaries and affiliates will be eligible to be granted awards under the 2005 Incentive Plan (other than adjusted awards that are assumed in connection with the spin-off).

Shares Subject to the Plan

The 2005 Incentive Plan will authorize the issuance of up to 12,000,000 shares of Expedia common stock pursuant to new awards under the plan, plus shares to be granted pursuant to the assumption of outstanding adjusted awards. No single participant may be granted awards covering in excess of 8,000,000 shares of Expedia common stock over the life of the 2005 Incentive Plan.

The shares of Expedia common stock subject to grant under the 2005 Incentive Plan are to be made available from authorized but unissued shares or from treasury shares, as determined from time to time by the Expedia Board. Other than adjusted awards, to the extent that any award is forfeited, or any option or stock appreciation right terminates, expires or lapses without being exercised, or any award is settled for cash, the shares of Expedia common stock subject to such awards not delivered as a result thereof will again be available for awards under the plan. If the exercise price of any option and/or the tax withholding obligations relating to any award are satisfied by delivering shares to Expedia common stock (by either actual delivery or by attestation), only the number of shares of Expedia common stock issued net of the shares of Expedia common stock delivered or attested to will be deemed delivered for purposes of the limits in the plan. To the extent any shares of Expedia common stock subject to an award are withheld to satisfy the exercise price (in the case of an option) and/or the tax withholding obligations relating to such award, such shares of Expedia common stock will not generally be deemed to have been delivered for purposes of the limits set forth in the plan.

In the event of certain extraordinary corporate transactions, the Committee or the Expedia Board will be able to make such substitutions or adjustments as it deems appropriate and equitable to (1) the aggregate number and kind of shares or other securities reserved for issuance and delivery under the plan, (2) the various maximum limitations set forth in the plan, (3) the number and kind of shares or other securities subject to outstanding awards; and (4) the exercise price of outstanding options and stock appreciation rights.

As indicated above, several types of stock grants can be made under the 2005 Incentive Plan. A summary of these grants is set forth below. The 2005 Incentive Plan will govern Expedia options and Expedia restricted stock units that convert from existing IAC options and IAC restricted stock units in connection with the spin-off as well as other award grants made following the spin-off pursuant to the 2005 Incentive Plan. Notwithstanding the foregoing, the terms that govern IAC options and IAC restricted stock units that convert into Expedia options and Expedia restricted stock units in connection with the spin-off will govern the Expedia options and Expedia restricted stock units to the extent inconsistent with the terms described below.

Stock Options and Stock Appreciation Rights

Stock options granted under the plan may either be incentive stock options or nonqualified stock options. Stock appreciation rights granted under the plan may either be granted alone or in tandem with a stock option. The exercise price of options and stock appreciation rights cannot be less than 100% of the fair market value of the stock underlying the options or stock appreciation rights on the date of grant. Optionees may pay the exercise price in cash or, if approved by the Committee, in Expedia common stock (valued at its fair market value on the date of exercise) or a combination thereof, or by "cashless exercise" through a broker or by withholding shares otherwise receivable on exercise. The term of options and stock appreciation rights shall be as determined by the Committee, but an ISO may not have a term longer than ten years from the date of grant. The Committee will determine the vesting and exercise schedule of options and stock appreciation rights, and the extent to which they will be exercisable after the award holder's employment terminates. Generally, unvested options and stock appreciation rights terminate upon the termination of employment, and vested options and stock appreciation rights will remain exercisable for one year after the award holder's death, disability or retirement, and 90 days after the award holder's termination for any other reason. Vested options and stock appreciation rights will also terminate upon the optionee's termination for cause (as defined in the 2005 Incentive Plan). Stock options and stock appreciation rights are transferable only by will or by the laws of descent and distribution, or pursuant to a qualified domestic relations order or in the case of nonqualified stock options or stock appreciation rights, as otherwise expressly permitted by the Committee including, if so permitted, pursuant to a transfer to the participant's family members, to a charitable organization, whether directly or indirectly or by means of a trust or partnership or otherwise.

Restricted Stock

Restricted stock may be granted with such restriction periods as the Committee may designate. The Committee may provide at the time of grant that the vesting of restricted stock will be contingent upon the achievement of applicable performance goals and/or continued service. In the case of performance-based awards that are intended to qualify under Section 162(m)(4), (i) such goals will be based on the attainment of one or any combination of the following: specified levels of earnings per share from continuing operations, net profit after tax, EBITDA, EBITA, gross profit, cash generation, unit volume, market share, sales, asset quality, earnings per share, operating income, revenues, return on assets, return on operating assets, return on equity, profits, total shareholder return (measured in terms of stock price appreciation and/or dividend growth), cost saving levels, marketing-spending efficiency, core non-interest income, change in working capital, return on capital, and/or stock price, with respect to Expedia or any subsidiary, division or department of Expedia. Such performance goals also may be based upon the attaining of specified levels of Expedia, subsidiary, affiliate or divisional performance under one or more of the measures described above relative to the performance of other entities, divisions or subsidiaries. Performance goals based on the foregoing factors are hereinafter referred to as "Performance Goals." The terms and conditions of restricted stock awards (including any applicable Performance Goals) need not be the same with respect to each participant. During the restriction period, the Committee may require that the stock certificates evidencing restricted shares be held by Expedia. Restricted stock may not be sold, assigned, transferred, pledged or otherwise encumbered, and is forfeited upon termination of employment, unless otherwise provided by the Committee. Other than such restrictions on transfer and any other restrictions the Committee may impose, the participant will have all the rights of a stockholder with respect to the restricted stock award.

Restricted Stock Units

The Committee may grant restricted stock units payable in cash or shares of Expedia common stock, conditioned upon continued service and/or the attainment of Performance Goals determined by the Committee. The terms and conditions of restricted stock unit awards (including any applicable Performance Goals) need not be the same with respect to each participant.

Other Stock-Based Awards

Other awards of Expedia common stock and other awards that are valued in whole or in part by reference to, or are otherwise based upon, Expedia common stock, including (without limitation), unrestricted stock, dividend equivalents, and convertible debentures, may be granted under the plan.

Bonus Awards

Bonus awards granted to eligible employees of Expedia and its subsidiaries and affiliates under the 2005 Incentive Plan shall be based upon the attainment of the Performance Goals established by the Committee for the plan year or such shorter performance period as may be established by the Committee. Bonus amounts earned by any individual shall be limited to $10 million for any plan year, pro rated (if so determined by the Committee) for any shorter performance period. Bonus amounts will be paid in cash or, in the discretion of the Committee, in Expedia common stock, as soon as practicable following the end of the plan year. The Committee may reduce or eliminate a participant's bonus award in any year notwithstanding the achievement of Performance Goals.

Change in Control

Unless otherwise provided by the Committee in an award agreement (and with respect to adjusted awards only if provided in an applicable award agreement or in the IAC plan under which the award was granted), in the event of a Change in Control (as defined in the 2005 Incentive Plan) of Expedia, in the case of officers of Expedia who are Senior Vice Presidents and above as of the time of the Change in Control and, in the case of other employees of Expedia if provided by the Committee in an award agreement (i) any SARs and stock options outstanding as of the date of the Change in Control, which are not then exercisable and vested will become fully exercisable and vested, (ii) the restrictions and deferral limitations applicable to restricted stock will lapse and such restricted stock will become free of all restrictions and fully vested, (iii) all restricted stock units will be considered to be earned and payable in full and any deferral or other restrictions will lapse and such restricted stock units will be settled in cash or shares of Expedia common stock as promptly as practicable, and (iv) bonus awards may be paid out in whole or in part, in the discretion of the Committee, notwithstanding whether Performance Goals have been achieved. In addition, in the event that, during the two-year period following a Change in Control, a participant's employment is terminated by Expedia other than for cause or disability or a participant resigns for good reason, (i) any SARs and stock options outstanding as of the date of the Change in Control, will become fully exercisable and vested and will remain exercisable for the greater of (a) the period that they would remain exercisable absent the Change in Control provision and (b) the lesser of the original term or one year following such termination of employment, (ii) the restrictions and deferral limitations applicable to restricted stock will lapse and such restricted stock will become free of all restrictions and fully vested, and (iii) all restricted stock units will be considered to be earned and payable in full and any deferral or other restrictions will lapse and such restricted stock units will be settled in cash or shares of Expedia common stock as promptly as practicable.

Amendment and Discontinuance

The 2005 Incentive Plan may be amended, altered or discontinued by the Expedia Board, but no amendment, alteration or discontinuance may impair the rights of an optionee under an option or a recipient of an SAR, restricted stock award, restricted stock unit award or bonus award previously granted without the optionee's or recipient's consent. Amendments to the 2005 Incentive Plan will require stockholder approval to the extent such approval is required by law or agreement.

Federal Income Tax Consequences

The following discussion is intended only as a brief summary of the federal income tax rules that are generally relevant to stock options. The laws governing the tax aspects of awards are highly technical and such laws are subject to change.

Nonqualified Options

Upon the grant of a nonqualified option, the optionee will not recognize any taxable income and Expedia will not be entitled to a deduction. Upon the exercise of such an option or related SAR, the excess of the fair market value of the shares acquired on the exercise of the option or SAR over the exercise price or the cash paid under an SAR (the "spread") will constitute compensation taxable to the optionee as ordinary income. Expedia, in computing its U.S. federal income tax, will generally be entitled to a deduction in an amount equal to the compensation taxable to the optionee, subject to the limitations of Code Section 162(m).

ISOs

An optionee will not recognize taxable income on the grant or exercise of an ISO. However, the spread at exercise will constitute an item includible in alternative minimum taxable income, and, thereby, may subject the optionee to the alternative minimum tax. Such alternative minimum tax may be payable even though the optionee receives no cash upon the exercise of the ISO with which to pay such tax.

Upon the disposition of shares of stock acquired pursuant to the exercise of an ISO, after the later of (i) two years from the date of grant of the ISO or (ii) one year after the transfer of the shares to the optionee (the "ISO Holding Period"), the optionee will recognize long-term capital gain or loss, as the case may be, measured by the difference between the stock's selling price and the exercise price. Expedia is not entitled to any tax deduction by reason of the grant or exercise of an ISO, or by reason of a disposition of stock received upon exercise of an ISO if the ISO Holding Period is satisfied. Different rules apply if the optionee disposes of the shares of stock acquired pursuant to the exercise of an ISO before the expiration of the ISO Holding Period.

Indemnification and Limitation of Liability for Officers and Directors

Expedia is incorporated under the laws of the State of Delaware. Section 145 of the General Corporation Law of the State of Delaware provides in relevant part as follows:

A corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interest of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had reasonable cause to believe that the person's conduct was unlawful.

A corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

As permitted by Delaware law, Expedia has included in its certificate of incorporation a provision to eliminate the personal liability of its directors for monetary damages for breach of their fiduciary duties as directors, subject to certain exceptions. In addition, Expedia's amended and restated certificate of incorporation and amended and restated bylaws will provide that Expedia is required to indemnify its officers and directors under certain circumstances, including those circumstances in which indemnification would otherwise be discretionary as described above. Moreover, Expedia is required to advance expenses to its officers and directors as incurred in connection with proceedings against them for which they may be indemnified. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling Expedia, Expedia has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

Description of IAC Capital Stock after the Spin-Off

The following is a description of the material terms of IAC's capital stock after the spin-off and after giving effect to the one-for-two reverse stock split that IAC intends to effect immediately prior to the spin-off. The following description is not meant to be complete and is qualified by reference to

IAC's certificate of incorporation and bylaws and the Delaware General Corporation Law. Copies of IAC's certificate of incorporation and bylaws are incorporated by reference herein. For more information on how you can obtain copies of these documents, see "Where You Can Find More Information." We urge you to read IAC's certificate of incorporation and bylaws in their entirety.

IAC Authorized Capital Stock

If IAC's stockholders approve the spin-off proposal, IAC's authorized capital stock will consist of one billion six hundred million (1,600,000,000) shares of common stock, par value $0.001 per share, four hundred million (400,000,000) shares of Class B common stock, par value $0.001 per share, and one hundred million (100,000,000) shares of preferred stock par value $0.001 per share. Based on the capitalization of IAC as of June 3, 2005, assuming the completion of (1) the Ask Jeeves acquisition, (2) the one-for-two reverse stock split and (3) the spin-off, and after giving effect to (4) IAC's June 7, 2005 acquisition from Universal of 43,181,308 shares of IAC common stock and 13,430,000 shares of IAC Class B common stock in connection with IAC's sale of its common and preferred interests in Vivendi Universal Entertainment to NBC Universal, IAC estimates that approximately 307,455,766 shares of IAC common stock and 25,599,998 shares of IAC Class B common stock will be outstanding immediately after the spin-off (assuming no conversion of derivative securities prior to the spin-off). The number of shares of preferred stock outstanding following the spin-off will depend on the elections that holders of IAC Series A preferred stock make in connection with the spin-off.

IAC Common Stock

In general, the holders of IAC common stock will vote together as a single class with the holders of IAC Class B common stock and IAC Series B preferred stock on all matters, including the election of directors; provided, however, that the holders of IAC common stock, acting as a single class, will be entitled to elect twenty-five percent (25%) of the total number of directors, rounded up to the next whole number in the event of a fraction. Each outstanding share of IAC common stock will entitle the holder to one vote when voting separately as a class, and one vote when voting together as a single group with the holders of IAC Class B common stock and IAC Series B preferred stock. The IAC certificate of incorporation will not provide for cumulative voting in the election of directors. Subject to any preferential rights of any outstanding series of IAC preferred stock created by the IAC Board of Directors from time to time, the holders of IAC common stock will be entitled, share for share with the holders of the Class B common stock, to such dividends as may be declared from time to time by the IAC Board of Directors from funds legally available for the payment of dividends, and, upon liquidation, dissolution or winding up, will be entitled to receive pro rata, share for share with the holders of the Class B common stock, all assets available for distribution after payment of a proper amount to the holders of any series of preferred stock that may be issued in the future.

IAC Class B Common Stock

In general, the holders of Class B common stock will vote together as a single class with the holders of IAC common stock and IAC Series B preferred stock on all matters, including the election of directors. The holders of IAC Class B common stock will be entitled to one vote when voting separately as a class, and ten votes when voting together as a single group with the holders of IAC common stock and IAC Series B preferred stock. The IAC certificate of incorporation will not provide for cumulative voting in the election of directors. Subject to any preferential rights of any outstanding series of IAC preferred stock created by the IAC Board of Directors from time to time, the holders of IAC Class B common stock will be entitled, share for share with the holders of the IAC common stock, to such dividends as may be declared from time to time by the IAC Board of Directors from funds legally available for the payment of dividends, and, upon liquidation, dissolution or winding up, will be entitled to receive pro rata, share for share with the holders of the IAC common stock, all assets available for distribution after payment of a proper amount to the holders of any series of preferred stock that may be issued in the future.

IAC Preferred Stock

IAC will have the authority to issue shares of preferred stock from time to time in one or more series. The IAC Board of Directors will have the authority, by resolution, to designate the powers, preferences, rights and qualifications and restrictions of preferred stock of IAC.

Series B Preferred Stock

General. The per share face amount and liquidation preference of the IAC Series B preferred stock will equal $50 (the current per share face amount and liquidation preference of the IAC Series A preferred stock) multiplied by a fraction equal to 50% of the opening price of IAC common stock on the first trading day following the spin-off divided by the closing price of IAC common stock on the date of the spin-off. Each share will have a term that expires on February 4, 2022.

Voting Rights. Holders of IAC Series B preferred stock will be entitled to two votes for each share held on all matters presented to such stockholders. Except as otherwise required by Delaware law or the IAC certificate of incorporation, or any special voting rights of IAC Series B preferred stock, the holders of IAC common stock, IAC Class B common stock and IAC Series B preferred stock will vote together as one class. No separate class vote of IAC Series B preferred stock will be required for the approval of any matter except as required by Delaware law.

Dividends. Each share of IAC Series B preferred stock will be entitled to receive dividends equal to the sum of (1) 1.99% of the face value per year, payable quarterly in cash or IAC common stock, at IAC's option, plus (2) the excess, if any, of the aggregate value of any dividends paid on the IAC common stock underlying the IAC Series B preferred stock over the amount described in (1). If IAC elects to pay the dividends in IAC common stock, the price will be based on the 10-day trailing average price of IAC common stock prior to the payment date. No other preferred stock of IAC will rank senior to IAC Series B preferred stock with respect to payment of dividends.

Conversion Rights. Each share of IAC Series B preferred stock will be initially convertible into 0.7408 shares of IAC common stock (the "conversion factor"). If the share price of IAC common stock exceeds a trigger price (calculated as described below), the conversion factor will increase to a number determined by dividing the face value of the IAC Series B preferred stock by the following quotient:

$$\frac{\text{Face Value X IAC}}{(\text{IAC X } 0.7408) + (0.2396 \text{ X } (\text{IAC} \quad \text{Trigger Price}))}$$

where IAC = 10-day average price of IAC common stock for the 10 days prior to the conversion date and the Trigger Price equals $70.20 (the current trigger price for the IAC Series A preferred stock after giving effect to the one-for-two reverse stock split) multiplied by a fraction equal to 50% of the opening price of IAC common stock on the first trading day following the spin-off divided by the closing price of IAC common stock on the date of the spin-off.

The certificate of designations for shares of IAC Series B preferred stock will also include an anti-dilution adjustment provision so that the number of shares of IAC common stock to be received upon conversion of a share of IAC Series B preferred stock is adjusted from time to time in the event of any stock split, stock consolidation, combination or subdivision, stock dividend or other distribution and any repurchase, reclassification, recapitalization or reorganization of IAC.

Redemption by IAC. Commencing on February 4, 2012, IAC will have the right from time to time to redeem at least 25% of the aggregate face value of the shares issued as of the date of the spin-off and up to 100% of the aggregate face value of the outstanding IAC Series B preferred stock at a redemption price per share of IAC Series B preferred stock equal to the face value plus any accrued and unpaid dividends. Any payment by IAC pursuant to a redemption by IAC may be made in cash or IAC common stock, at the option of IAC.

Redemption by the Holder of IAC Series B Preferred Stock. During the 20 business day period preceding each of the fifth, seventh, tenth and fifteenth anniversaries of February 4, 2002, a holder of IAC Series B preferred stock will have the right to require IAC to purchase all or a portion of the shares of IAC Series B preferred stock held by such holder for face value plus any accrued and unpaid dividends. Any payment by IAC pursuant to a redemption by the holder of IAC Series B preferred stock may be made in cash or IAC common stock, at the option of IAC.

Liquidation Rights. In the event of a voluntary or involuntary liquidation, dissolution or winding up of IAC, holders of IAC Series B preferred stock will be entitled to receive in preference to any holder of IAC common shares an amount per share equal to all accrued and unpaid dividends plus the greater of (a) face value, or (b) the liquidating distribution that would be received had such holder converted the IAC Series B preferred stock into IAC common stock immediately prior to the liquidation, dissolution or winding up of IAC. No other preferred stock of IAC will rank senior to IAC Series B preferred stock with respect to payment upon liquidation.

Reservation of Shares of IAC Common Stock. IAC will keep in reserve at all times during the term of the IAC Series B preferred stock sufficient authorized but unissued shares of IAC common stock for issuance in the event of exercises by the holders of IAC Series B preferred stock.

Registration of Shares under the Securities Act. The IAC Series B preferred stock and any IAC common stock issued upon conversion of the IAC Series B preferred stock will be registered under the Securities Act.

Public Market. Following the spin-off, IAC intends to seek to have the shares of IAC Series B preferred stock, if any, quoted on the OTC Bulletin Board under the ticker symbol "IACIP.OC." However, there can be no assurance that a viable and active trading market will develop."

IAC Warrants

Holders of IAC warrants prior to the spin-off will not need to take any action to effect the split of their warrants into separate IAC warrants and Expedia warrants. For a description of the manner in which the IAC warrants will be adjusted in the spin-off, see "The Spin-Off Proposal Treatment of IAC Series A Preferred Stock, Warrants and Indebtedness Split of IAC Warrants."

The number of shares of IAC common stock issuable upon the exercise of the IAC warrants will be subject to adjustment from time to time upon the occurrence of any of the following events: any stock split; any stock consolidation, combination or subdivision; any stock dividend or other distribution; any repurchase, reclassification, recapitalization or reorganization; and certain distributions of rights, warrants or evidences of indebtedness or assets. No fractional shares will be issued upon exercise of warrants, and cash will be paid to the holders of such warrants in lieu of such fractional shares based on the closing prices of IAC common stock as of the exercise date of the warrant.

Anti-Takeover Provisions in IAC's Bylaws

IAC's bylaws contain provisions that could delay or make more difficult the acquisition of IAC by means of a hostile tender offer, open market purchases, a proxy contest or otherwise. Please also refer to "Risk Factors" for information on other factors that could impact a change of control. In addition, IAC's bylaws provide that, subject to the rights of holders of IAC preferred stock, only IAC's Chairman of the Board of Directors or a majority of IAC's Board of Directors may call a special meeting of stockholders.

Effect of Delaware Anti-Takeover Statute

IAC is subject to Section 203 of the Delaware General Corporation Law, or the DGCL, which regulates corporate acquisitions. Section 203 generally prevents corporations from engaging in a business combination with any interested stockholder for three years following the date that the stockholder became an interested stockholder, unless that business combination has been approved in one of a number of specific ways. For purposes of Section 203, a "business combination" includes, among other things, a merger or consolidation involving IAC and the interested stockholder and a sale of more than 10% of IAC's assets. In general, the anti-takeover law defines an "interested stockholder" as any entity or person beneficially owning 15% or more of a company's outstanding voting stock and any entity or person affiliated with or controlling or controlled by that entity or person. A Delaware corporation may "opt out" of Section 203 with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from amendments approved by holders of at least a majority of a corporation's outstanding voting shares. The IAC Board of Directors has previously approved for purposes of Section 203 certain transactions among Barry Diller and Liberty and their respective affiliates and associates and IAC, which transactions may have resulted in Mr. Diller and/or Liberty becoming an "interested shareholder" of IAC. Other than with respect to the foregoing, IAC has not "opted out" of the provisions of Section 203, and following the spin-off will remain subject to the provisions of Section 203.

Action by Written Consent

Under the DGCL, unless a company's certificate of incorporation expressly prohibits action by the written consent of stockholders, any action required or permitted to be taken by its stockholders at a duly called annual or special meeting may be taken by a consent in writing executed by stockholders possessing the requisite votes for the action to be taken. IAC's current certificate of incorporation does not expressly prohibit action by the written consent of stockholders. The certificate of incorporation that will be in effect following the spin-off will also not expressly prohibit action by the written consent of stockholders. As a result, Mr. Diller, who as of the date of this proxy statement/prospectus controlled a majority of the outstanding total voting power of IAC, will be able to take any action to be taken by stockholders without the necessity of holding a stockholders meeting (other than with respect to the election by the holders of shares of IAC common stock of 25% of the members of IAC's Board of Directors and certain matters as to which a separate class vote of the holders of shares of IAC common stock or IAC Series B preferred stock is required).

Transfer Agent

The transfer agent for the shares of IAC common stock following the spin-off will be The Bank of New York.

Description of Expedia Capital Stock after the Spin-Off

The following is a description of the material terms of Expedia capital stock. The following description is not meant to be complete and is qualified by reference to the forms of certificate of incorporation and bylaws that Expedia will implement immediately prior to the spin-off and the Delaware General Corporation Law. The forms of Expedia certificate of incorporation and bylaws, as these documents are expected to be in effect at the time of the spin-off, have been filed as exhibits to the registration statement, of which this document is a part. For more information on how you can obtain copies of these documents, see "Where You Can Find More Information." We urge you to read the forms of Expedia's certificate of incorporation and bylaws in their entirety.

Expedia Authorized Capital Stock

Expedia's authorized capital stock will consist of one billion six hundred million (1,600,000,000) shares of common stock, par value $0.001 per share, four hundred million (400,000,000) shares of Class B common stock, par value $0.001 per share, and one hundred million (100,000,000) shares of preferred stock, par value $0.001 per share. Based on the capitalization of IAC as of June 3, 2005, assuming the completion of (1) the Ask Jeeves acquisition, (2) the one-for-two reverse stock split, and (3) the spin-off, and, after giving effect to (4) IAC's June 7, 2005 acquisition from Universal of 43,181,308 shares of IAC common stock and 13,430,000 shares of IAC Class B common stock in connection with IAC's sale of its common and preferred interests in Vivendi Universal Entertainment to NBC Universal, Expedia estimates that approximately 307,405,766 shares of Expedia common stock and 25,599,998 shares of Expedia Class B common stock will be outstanding immediately after the spin-off (assuming no conversion of derivative securities prior to the spin-off). The number of shares of Expedia Series A preferred stock outstanding following the spin-off will depend on the elections that holders of IAC Series A preferred stock make in connection with the spin-off.

Expedia Common Stock

In general, the holders of Expedia common stock will vote together as a single class with the holders of Expedia Class B common stock and Expedia Series A preferred stock on all matters, including the election of directors; provided, however, that the holders of Expedia common stock, acting as a singles class, will be entitled to elect twenty-five percent (25%) of the total number of directors, rounded up to the next whole number in the event of a fraction. Each outstanding share of Expedia common stock will entitle the holder to one vote when voting separately as a class, and one vote when voting together as a single group with the holders of Expedia Class B common stock and Expedia Series A preferred stock. The Expedia certificate of incorporation will not provide for cumulative voting in the election of directors. Subject to any preferential rights of any outstanding series of Expedia preferred stock created by the Expedia Board of Directors from time to time, the holders of Expedia common stock will be entitled, share for share with the holders of the Expedia Class B common stock, to such dividends as may be declared from time to time by the Expedia Board of Directors from funds legally available for the payment of dividends, and, upon liquidation, dissolution or winding up, will be entitled to receive pro rata, share for share with the holders of the Expedia Class B common stock, all assets available for distribution after payment of a proper amount to the holders of any series of preferred stock that may be issued in the future.

Expedia Class B Common Stock

In general, the holders of Expedia Class B common stock will vote together as a single class with the holders of Expedia common stock and Expedia Series A preferred stock on all matters, including the election of directors. The holders of Expedia Class B common stock will be entitled to one vote when voting separately as a class, and ten votes when voting together as a single group with the holders of Expedia common stock and Expedia Series A preferred stock. The Expedia certificate of incorporation will not provide for cumulative voting in the election of directors. Subject to any preferential rights of any outstanding series of Expedia preferred stock created by the Expedia Board of Directors from time to time, the holders of Expedia Class B common stock will be entitled, share for share with the holders of the Expedia common stock, to such dividends as may be declared from time to time by the Expedia Board of Directors from funds legally available for the payment of dividends, and, upon liquidation, dissolution or winding up, will be entitled to receive pro rata, share for share with the holders of Expedia common stock, all assets available for distribution after payment of a proper amount to the holders of any series of preferred stock that may be issued in the future.

Expedia Preferred Stock

Expedia may issue shares of preferred stock from time to time in one or more series. The Expedia Board of Directors has authority, by resolution, to designate the powers, preferences, rights and qualifications and restrictions of preferred stock of Expedia.

Series A Preferred Stock

General. The per share face amount and liquidation preference of the Expedia Series A preferred stock will equal $50 (the current per share face amount and liquidation preference of the IAC Series A preferred stock) multiplied by a fraction equal to 50% of the opening price of Expedia common stock on the first trading day following the spin-off divided by the closing price of IAC common stock on the date of the spin-off. Each share will have a term that expires on February 4, 2022.

Voting Rights. Holders of Expedia Series A preferred stock will be entitled to two votes for each share of Expedia Series A preferred stock held on all matters presented to such stockholders. Except as otherwise required by Delaware law, or any special voting rights of Expedia Series A preferred stock as described in this proxy statement/prospectus, the holders of Expedia common stock, Expedia Class B common stock and Expedia Series A preferred stock entitled to vote together as one class. No separate class vote of Expedia Series A preferred stock will be required for the approval of any matter except as required by Delaware law.

Dividends. Each share of Expedia Series A preferred stock will be entitled to receive dividends equal to the sum of (1) 1.99% of the face value per year, payable quarterly in cash or Expedia common stock, at Expedia's option, plus (2) the excess, if any, of the aggregate value of any dividends paid on the Expedia common stock underlying the Expedia Series A preferred stock over the amount described in (1). If Expedia elects to pay the dividends in Expedia common stock, the price will be based on the 10-day trailing average price of Expedia common stock prior to the payment date. No other preferred stock of Expedia will rank senior to Expedia Series A preferred stock with respect to payment of dividends.

Conversion Rights. Each share of Expedia Series A preferred stock will be initially convertible into 0.7408 shares of Expedia common stock (the "conversion factor"). If the share price of Expedia common stock exceeds a trigger price (calculated as described below), the conversion factor will increase to a number determined by dividing the face value of the Expedia Series A preferred stock by the following quotient:

$$\frac{\text{Face Value X EXP}}{(\text{EXP X } 0.7408) + (0.2396 \text{ X } (\text{EXP-Trigger Price}))}$$

where EXP = 10-day average price of Expedia common stock for the 10 days prior to the conversion date and the Trigger Price equals $70.20 (the trigger price for the IAC Series A preferred stock after giving effect to the one-for-two reverse stock split) multiplied by a fraction equal to 50% of the opening price of Expedia common stock on the first trading day following the spin-off divided by the closing price of IAC common stock on the date of the spin-off.

The certificate of designations for shares of Expedia Series A preferred stock will also include an anti-dilution adjustment provision so that the number of shares of Expedia common stock to be received upon conversion of a share of Expedia Series A preferred stock is adjusted from time to time in the event of any stock split, stock consolidation, combination or subdivision, stock dividend or other distribution and any repurchase, reclassification, recapitalization or reorganization of Expedia.

Redemption by Expedia. Commencing on February 4, 2012, Expedia will have the right from time to time to redeem at least 25% of the original aggregate face value and up to 100% of the original aggregate face value of the outstanding Expedia Series A preferred stock at a redemption price per share of Expedia Series A preferred stock equal to face value plus any accrued and unpaid dividends. Any payment by Expedia pursuant to a redemption by Expedia may be made in cash or Expedia common stock, at the option of Expedia.

Redemption by the Holder of Expedia Series A Preferred Stock. During the 20 business day period preceding each of the fifth, seventh, tenth and fifteenth anniversaries of February 4, 2002, a holder of Expedia Series A preferred stock will have the right to require Expedia to purchase all or a portion of the shares of Expedia Series A preferred stock held by such holder for face value plus any accrued and unpaid dividends. Any payment by Expedia pursuant to a redemption by the holder of Expedia Series A preferred stock may be made in cash or Expedia common stock, at the option of Expedia.

Liquidation Rights. In the event of a voluntary or involuntary liquidation, dissolution or winding up of Expedia, holders of Expedia Series A preferred stock will be entitled to receive in preference to any holder of Expedia common shares an amount per share equal to all accrued and unpaid dividends plus the greater of (a) face value, or (b) the liquidating distribution that would be received had such holder converted the Expedia Series A preferred stock into Expedia common stock immediately prior to the liquidation, dissolution or winding up of Expedia. No other preferred stock of Expedia will rank senior to Expedia Series A preferred stock with respect to payment upon liquidation.

Reservation of Shares of Expedia Common Stock. Expedia will keep in reserve at all times during the term of the Expedia Series A preferred stock sufficient authorized but unissued shares of Expedia common stock for issuance in the event of exercises by the holders of Expedia Series A preferred stock.

Registration of Shares under the Securities Act. The Expedia Series A preferred stock and any Expedia common stock issued upon conversion of the Expedia Series A preferred stock will be registered under the Securities Act.

Public Market. Expedia intends to seek to have the shares of Expedia Series A preferred stock quoted on the OTC Bulletin Board under the ticker symbol "EXPEP.OC." However, there can be no assurance that a viable and active trading market will develop.

Expedia Warrants

Holders of IAC warrants will not need to take any action to effect the split of their warrants into separate IAC warrants and Expedia warrants. For a description of the manner in which the IAC warrants will be adjusted in the spin-off, see "The Spin-Off Proposal Treatment of IAC Series A Preferred Stock, Warrants and Indebtedness Split of IAC Warrants."

In the case of Expedia warrants to be issued in the spin-off, the number of shares of Expedia common stock issuable upon the exercise of the warrants will be subject to adjustment from time to time upon the occurrence of any of the following events: any stock split; any stock consolidation, combination or subdivision; any stock dividend or other distribution; any repurchase, reclassification, recapitalization or reorganization; and certain distributions of rights, warrants or evidences of indebtedness or assets. No fractional shares will be issued upon exercise of warrants, and cash will be paid to the holders of such warrants in lieu of such fractional shares based on the closing prices of Expedia common stock as of the exercise date of the warrant.

Anti-Takeover Provisions in Expedia's Bylaws

Expedia's bylaws will contain provisions that could delay or make more difficult the acquisition of Expedia by means of a hostile tender offer, open market purchases, a proxy contest or otherwise. We also refer you to "Risk Factors" for information on other factors that could impact a change of control.

In addition, Expedia's bylaws will provide that, subject to the rights of holders of preferred stock, only Expedia's Chairman of the Board of Directors or a majority of Expedia's Board of Directors may call a special meeting of stockholders.

Effect of Delaware Anti-Takeover Statute

Expedia will be subject to Section 203 of the DGCL, which regulates corporate acquisitions. Section 203 generally prevents corporations from engaging in a business combination with any interested stockholder for three years following the date that the stockholder became an interested stockholder, unless that business combination has been approved in one of a number of specific ways. For purposes of Section 203, a "business combination" includes, among other things, a merger or consolidation involving Expedia and the interested stockholder and a sale of more than 10% of Expedia's assets. In general, the anti-takeover law defines an "interested stockholder" as any entity or person beneficially owning 15% or more of a company's outstanding voting stock and any entity or person affiliated with or controlling or controlled by that entity or person. A Delaware corporation may "opt out" of Section 203 with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from amendments approved by holders of at least a majority of a corporation's outstanding voting shares. In connection with the spin-off, Expedia has approved for purposes of Section 203 the spin-off-related transactions among Mr. Diller and Liberty and their respective affiliates and associates, that may otherwise result in such persons becoming an "interested shareholder" of Expedia. Other than with respect to the foregoing, Expedia has not "opted out" of the provisions of Section 203, and following the spin-off will remain subject to the provisions of Section 203.

Action by Written Consent

Under the DGCL, unless a company's certificate of incorporation expressly prohibits action by the written consent of stockholders, any action required or permitted to be taken by its stockholders at a duly called annual or special meeting may be taken by a consent in writing executed by stockholders possessing the requisite votes for the action to be taken. Expedia's certificate of incorporation does not expressly prohibit action by the written consent of stockholders. As a result, Mr. Diller, who based on grants of irrevocable proxies for his benefit and his beneficial holdings of IAC as of the date of this proxy statement/prospectus is expected to control a majority of the outstanding total voting power of Expedia, will be able to take any action to be taken by stockholders without the necessity of holding a stockholders meeting (other than with respect to the election by the holders of shares of Expedia common stock of 25% of the members of Expedia's Board of Directors and certain matters as to which a separate class vote of the holders of shares of Expedia common stock or Expedia Series A preferred stock is required).

Transfer Agent

The transfer agent for the shares of Expedia common stock following the spin-off will be The Bank of New York.

Comparison of Rights of Holders of IAC Securities before the Spin-Off with Rights of Holders of IAC Securities and Expedia Securities Following the Spin-Off

The following table sets forth a comparison of (i) IAC common stock and IAC Class B common prior to the spin-off to (ii) IAC common stock and IAC Class B common after the spin-off to (iii) Expedia common stock and Expedia Class B common stock after the spin-off:

	IAC Common Stock and Class B Common Stock before Spin-Off	IAC Common Stock and Class B Common Stock after Spin-Off	Expedia Common Stock and Class B Common Stock after Spin-Off
Authorized Capital Stock:	2,100,000,000 shares of capital stock, consisting of (i) 1,600,000,000 shares of IAC common stock, par value $0.01 per share, (ii) 400,000,000 shares of IAC Class B common stock, par value $0.01 per share, and (iii) 100,000,000 shares of IAC Preferred Stock, par value $0.01 per share.	2,100,000,000 shares of capital stock, consisting of (i) 1,600,000,000 shares of IAC common stock, par value $0.001 per share, (ii) 400,000,000 shares of IAC Class B common stock, par value $0.001 per share, and (iii) 100,000,000 shares of IAC preferred stock, par value $0.001 per share.	2,100,000,000 shares of capital stock, consisting of (i) 1,600,000,000 shares of Expedia common stock, par value $0.001 per share, (ii) 400,000,000 shares of Expedia Class B common stock, par value $0.001 per share, and (iii) 100,000,000 shares of Expedia preferred stock, par value $0.001 per share.
Voting Power of Capital Stock:	Each share of IAC common stock is entitled to one vote per share; each share of IAC Class B common stock is entitled to ten votes per share and each share of IAC Series A preferred stock is entitled to two votes per share, in each case, generally voting together on all matters submitted for the vote or consent of IAC stockholders, except in cases where the Delaware General Corporation Law, or the DGCL, provides for a separate class vote and except for the election of 25% of the IAC Board of Directors, which is elected by the holders of the IAC common stock. Based on the number of shares of IAC Class B common stock outstanding as of the date of this proxy statement/prospectus, the holders of IAC Class B common stock control the vote of any matter submitted to IAC stockholders voting together as a single class.	Each share of IAC common stock will be entitled to one vote per share; each share of IAC Class B common stock will be entitled to ten votes per share and each share of IAC Series B preferred stock will be entitled to two votes per share, in each case, generally voting together on all matters submitted for the vote or consent of IAC stockholders, except in cases where the DGCL provides for a separate class vote and except for the election of 25% of the IAC Board of Directors, which is elected by the holders of the IAC common stock. Based on the number of shares of IAC Class B common stock expected to be outstanding following the spin-off, the holders of IAC Class B common stock will likely control the vote of any matter submitted to IAC stockholders voting together as a single class.	Each share of Expedia common stock will be entitled to one vote per share; each share of Expedia Class B common stock will be entitled to ten votes per share and each share of Expedia Series A preferred stock will be entitled to two votes per share, in each case, generally voting together on all matters submitted for the vote or consent of Expedia stockholders, except in cases where the DGCL provides for a separate class vote and except for the election of 25% of the Expedia Board of Directors, which will be elected by the holders of the Expedia common stock. Based on the number of shares of Expedia Class B common stock expected to be outstanding following the spin-off, the holders of Expedia Class B common stock will likely control the vote of any matter submitted to Expedia stockholders voting together as a single class.
Board of Directors:	The IAC bylaws provide that the IAC Board of Directors will determine the number of directors by resolution. Currently, the number of directors is 10. The IAC charter provides that the holders of the IAC common stock, acting as a single class, elect 25% of the total number of directors, with the remaining directors elected by the holders of the IAC common stock, IAC	The IAC bylaws will provide that the IAC Board of Directors will determine the number of directors by resolution. The number of directors is expected to be 10. The IAC charter will provide that the holders of the IAC common stock, acting as a single class, may elect 25% of the total number of directors, with the remaining directors elected by the holders of the IAC common	The Expedia bylaws will provide that the Expedia Board of Directors will determine the number of directors by resolution. The number of directors is expected to be nine. The Expedia charter will provide that the holders of the Expedia common stock, acting as a single class, may elect 25% of the total number of directors, with the remaining directors elected by the

IAC Common Stock and Class B Common Stock before Spin-Off	IAC Common Stock and Class B Common Stock after Spin-Off	Expedia Common Stock and Class B Common Stock after Spin-Off
Class B common stock and IAC Series A preferred stock voting together as a single class.	stock, IAC Class B common stock and IAC Series B preferred stock voting together as a single class.	holders of the Expedia common stock, Expedia Class B common stock and Expedia Series A preferred stock voting together as a single class.

Removal of Directors:	The IAC certificate of incorporation currently provides that a director may be removed either with or without cause, by the affirmative vote of the holders of a majority of each of the classes of shares then entitled to vote, except that directors elected exclusively by holders of IAC common stock may only be removed by the holders of IAC common stock.	If IAC stockholders approve the director removal proposal, the IAC bylaws will govern the procedures for removing directors. The IAC bylaws provide that a director may be removed either with or without cause, by the affirmative vote of a majority of the voting power of shares then entitled to vote of the class or classes that elected such director.	The Expedia bylaws will provide that a director may be removed either with or without cause, by the affirmative vote of a majority of the voting power of shares then entitled to vote of the class or classes that elected such director.
Filling Vacancies of the Board of Directors:	The DGCL provides that, unless the charter or bylaws provide otherwise, whenever the holders of any class or classes are entitled to elect directors, vacancies and newly created directorships of such class or classes may be filled by a majority of the directors elected by such class or classes then in office or by a sole remaining director so elected. IAC's bylaws also permit holders of a majority of the voting power of outstanding shares entitled to vote on a particular directorship to fill vacancies with respect to that directorship.	The DGCL provides that, unless the charter or bylaws provide otherwise, whenever the holders of any class or classes are entitled to elect directors, vacancies and newly created directorships of such class or classes may be filled by a majority of the directors elected by such class or classes then in office or by a sole remaining director so elected. IAC's bylaws will permit holders of a majority of the voting power of outstanding shares entitled to vote on a particular directorship to fill vacancies with respect to that directorship.	The DGCL provides that, unless the charter or bylaws provide otherwise, whenever the holders of any class or classes are entitled to elect directors, vacancies and newly created directorships of such class or classes may be filled by a majority of the directors elected by such class or classes then in office or by a sole remaining director so elected. Expedia's bylaws will permit holders of a majority of the voting power of outstanding shares entitled to vote on a particular directorship to fill vacancies with respect to that directorship.
Stockholder Action by Written Consent:	The DGCL provides that unless a corporation otherwise provides in its certificate of incorporation, any action required or permitted to be taken at an annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having at least the minimum number of votes necessary to authorize or take such action at a meeting at which all shares entitled to vote on the matter are present. IAC's charter does not provide otherwise.	The DGCL provides that unless a corporation otherwise provides in its certificate of incorporation, any action required or permitted to be taken at an annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having at least the minimum number of votes necessary to authorize or take such action at a meeting at which all shares entitled to vote on the matter are present. IAC's charter will not provide otherwise.	The DGCL provides that unless a corporation otherwise provides in its certificate of incorporation, any action required or permitted to be taken at an annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having at least the minimum number of votes necessary to authorize or take such action at a meeting at which all shares entitled to vote on the matter are present. Expedia's charter will not provide otherwise.

Calling of Annual Meetings of Stockholders:	The DGCL provides that a special meeting of stockholders may be called by the Board of Directors or by such person or persons as may be authorized by the certificate of incorporation or by the bylaws. IAC's bylaws provide that a special meeting of stockholders may be called by IAC's Chairman of the Board of Directors or by a majority of IAC's Board of Directors.	The DGCL provides that a special meeting of stockholders may be called by the Board of Directors or by such person or persons as may be authorized by the certificate of incorporation or by the bylaws. IAC's bylaws will provide that a special meeting of stockholders may be called by IAC's Chairman of the Board of Directors or by a majority of IAC's Board of Directors.	The DGCL provides that a special meeting of stockholders may be called by the Board of Directors or by such person or persons as may be authorized by the certificate of incorporation or by the bylaws. Expedia's bylaws will provide that a special meeting of stockholders may be called by Expedia's Chairman of the Board of Directors or by a majority of Expedia's Board of Directors.
Supermajority Provisions and Amendment of the Certificate of Incorporation:	The IAC charter requires a supermajority (80%) vote of each of the Board of Directors and the voting power of the stockholders voting as a single class to amend or repeal the requirement that the Chief Executive Officer may only be removed without cause by the affirmative vote of at least 80% of the entire Board of Directors.	The IAC charter will require a supermajority (80%) vote of each of the Board of Directors and the voting power of the stockholders voting as a single class to amend or repeal the requirement that the Chief Executive Officer may only be removed without cause by the affirmative vote of at least 80% of the entire Board of Directors.	The Expedia charter will require a supermajority (80%) vote of each of the Board of Directors and the voting power of the stockholders voting as a single class to amend or repeal the requirement that the senior executive may only be removed without cause by the affirmative vote of at least 80% of the entire Board of Directors.
Corporate Opportunity:	None.	The IAC charter will generally provide that no officer or director of IAC who is also an officer or director of Expedia will be liable to IAC or its stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to Expedia instead of IAC, or does not communicate information regarding a corporate opportunity to IAC that the officer or director has directed to Expedia.	The Expedia charter will generally provide that no officer or director of Expedia who is also an officer or director of IAC will be liable to Expedia or its stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to IAC instead of Expedia, or does not communicate information regarding a corporate opportunity to Expedia that the officer or director has directed to IAC.

The following table sets forth a comparison of (i) IAC preferred stock prior to the spin-off and the one-for-two reverse stock split to (ii) IAC preferred stock after the spin-off to (iii) Expedia preferred stock after the spin-off:

	IAC Series A Preferred Stock before Spin-Off	IAC Series B Preferred Stock after Spin-Off	Expedia Series A Preferred Stock after Spin-Off
Designation:	13,125,000 shares of IAC preferred stock, par value $0.01 per share, have been designated as IAC Series A preferred stock.	Up to 13,125,000 shares of IAC preferred stock, par value $0.001 per share, will be designated as IAC Series B preferred stock.	Up to 13,125,000 shares of Expedia preferred stock, par value $0.001 per share, will be designated as Expedia Series A preferred stock.
Rank:	IAC Series A preferred stock ranks prior to all shares of common stock of IAC as to the payment of dividends or the distribution of assets upon liquidation, dissolution or the winding up of the affairs of IAC. No other preferred share of IAC is permitted to rank senior to the IAC Series A preferred stock as to the payment of dividends or the distribution of assets upon liquidation, dissolution or the winding up of the affairs of IAC, unless the holders of a majority of the outstanding shares of the IAC Series A preferred stock consent.	IAC Series B preferred stock will rank prior to all shares of common stock of IAC as to the payment of dividends or the distribution of assets upon liquidation, dissolution or the winding up of the affairs of IAC. No other preferred share of IAC will be permitted to rank senior to the IAC Series B preferred stock as to the payment of dividends or the distribution of assets upon liquidation, dissolution or the winding up of the affairs of IAC, unless the holders of a majority of the outstanding shares of the IAC Series B preferred stock consent.	Expedia Series A preferred stock will rank prior to all shares of common stock of Expedia as to the payment of dividends or the distribution of assets upon liquidation, dissolution or the winding up of the affairs of Expedia. No other preferred share of Expedia will be permitted to rank senior to the Expedia Series A preferred stock as to the payment of dividends or the distribution of assets upon liquidation, dissolution or the winding up of the affairs of Expedia, unless the holders of a majority of the outstanding shares of the Expedia Series A preferred stock consent.
Term:	At the close of business on February 4, 2022, all then outstanding shares of IAC Series A preferred stock will convert, as described under " Convertibility" into shares of IAC common stock.	At the close of business on February 4, 2022, all then outstanding shares of IAC Series B preferred stock will convert, as described under " Convertibility" into shares of IAC common stock.	At the close of business on February 4, 2022, all then outstanding shares of Expedia Series A preferred stock will convert, as described under " Convertibility" into shares of Expedia common stock.
Voting Rights:	Holders of IAC Series A preferred stock are entitled to two votes for each share of IAC Series A preferred stock held on all matters presented to such shareholders. Except as otherwise required by Delaware law, or any special voting rights of IAC Series A preferred stock, the holders of IAC common stock, IAC Class B common stock and IAC Series A preferred stock are entitled to vote together as one class. No separate class vote of IAC Series A preferred stock is required for the approval of any matter except as required by Delaware law.	Holders of IAC Series B preferred stock will be entitled to two votes for each share of IAC Series B preferred stock held on all matters presented to such shareholders. Except as otherwise required by Delaware law, or any special voting rights of IAC Series B preferred stock, the holders of IAC common stock, IAC Class B common stock and IAC Series B preferred stock will be entitled to vote together as one class. No separate class vote of IAC Series B preferred stock will be required for the approval of any matter except as required by Delaware law.	Holders of Expedia Series A preferred stock will be entitled to two votes for each share of Expedia Series A preferred stock held on all matters presented to such shareholders. Except as otherwise required by Delaware law, or any special voting rights of Expedia Series A preferred stock as described in this document, the holders of Expedia common stock, Expedia Class B common stock and Expedia Series A preferred stock will be entitled to vote together as one class. No separate class vote of Expedia Series A preferred stock will be required for the approval of any matter except as required by Delaware law.

IAC Series A Preferred Stock before Spin-Off	IAC Series B Preferred Stock after Spin-Off	Expedia Series A Preferred Stock after Spin-Off

Dividends:	Holders of IAC Series A preferred stock are entitled to receive annual dividends in the amount of (i) 1.99% of its face value (the face value is $50.00 per share), plus (ii) the excess, if any, of the value of any dividends paid on the number of shares of IAC common stock into which the IAC Series A preferred stock is then convertible as described under " Convertibility."	Holders of IAC Series B preferred stock will be entitled to receive annual dividends in the amount of (i) 1.99% of $50 multiplied by a fraction equal to 50% of the opening price of IAC common stock on the first trading day following the spin-off divided by the closing price of IAC common stock on the date of the spin-off (the "Face Value"), plus (ii) the excess, if any, of the value of any dividends paid on the number of shares of IAC common stock into which the IAC Series B preferred stock is then convertible as described under " Convertibility."	Holders of Expedia Series A preferred stock will be entitled to receive annual dividends in the amount of (i) 1.99% of $50 multiplied by a fraction equal to 50% of the opening price of Expedia common stock on the first trading day following the spin-off divided by the closing price of IAC common stock on the date of the spin-off (the "Face Value"), plus (ii) the excess, if any, of the value of any dividends paid on the number of shares of Expedia common stock into which the Expedia Series A preferred stock is then convertible as described under " Convertibility."
Liquidation:	In the event of any liquidation, dissolution or winding up of IAC, holders of IAC Series A preferred stock are entitled to receive any accrued and unpaid dividends, without interest, plus the greater of (a) $50.00 and (b) the liquidating distribution that would be paid with respect to the number of shares of IAC common stock into which such a share is then convertible.	In the event of any liquidation, dissolution or winding up of IAC, holders of IAC Series B preferred stock will be entitled to receive any accrued and unpaid dividends, without interest, plus the greater of (a) the Face Value and (b) the liquidating distribution that would be paid with respect to the number of shares of IAC common stock into which such a share is then convertible.	In the event of any liquidation, dissolution or winding up of Expedia, holders of Expedia Series A preferred stock will be entitled to receive any accrued and unpaid dividends, without interest, plus the greater of (a) the Face Value and (b) the liquidating distribution that would be paid with respect to the number of shares of Expedia common stock into which such a share is then convertible.
Redemption by IAC:	Beginning February 4, 2012, IAC may at its option redeem all or a portion of the outstanding shares of IAC Series A preferred stock at a redemption price equal to the face value of the stock (the face value is $50.00 per share) plus all dividends on the stock that are accrued and unpaid. In the event that only a portion of the outstanding shares of IAC Series A preferred stock are redeemed, IAC must redeem at least 25% of the originally issued aggregate face value of such shares, unless there remains less than 25% of such amount, in which case the entire amount must be redeemed. The amount paid in redemption of shares of IAC Series A preferred stock may be paid in any combination of cash or shares of IAC common stock.	Beginning February 4, 2012, IAC will be able to at its option redeem all or a portion of the outstanding shares of IAC Series B preferred stock at a redemption price equal to the Face Value plus all dividends on the stock that are accrued and unpaid. In the event that only a portion of the outstanding shares of IAC Series B preferred stock are redeemed, IAC will be required to redeem at least 25% of the aggregate Face Value of the issued shares as of the date of the spin-off, unless there remains less than 25% of such amount, in which case the entire amount must be redeemed. The amount paid in redemption of shares of IAC Series B preferred stock may be paid in any combination of cash or shares of IAC common stock.	Beginning February 4, 2012, Expedia will have the right at its option to redeem all or a portion of the outstanding shares of Expedia Series A preferred stock at a redemption price equal to the Face Value of the stock plus all dividends on the stock that are accrued and unpaid. In the event that only a portion of the outstanding shares of Expedia Series A preferred stock are redeemed, Expedia will be required to redeem at least 25% of the aggregate Face Value of the issued shares as of the date of the spin-off, unless there remains less than 25% of such amount, in which case the entire amount must be redeemed. The amount paid in redemption of shares of Expedia Series A preferred stock may be paid in any combination of cash or shares of Expedia common stock.