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IAC REPORTS Q2 2003 RESULTS

- Revenue of $1.5 billion, up 38%
- GAAP diluted EPS from continuing operations of $0.09
- Adjusted EPS of $0.18
- Year-to-date net cash provided by operating activities of $939 million

NEW YORK, August 5, 2003 IAC/InterActiveCorp reported Q2 2003 revenue of $1.5 billion versus $1.1 billion, an increase of 38% over the prior year period, and operating income of $111.8 million versus $25.4 million in the prior year period. Q2 2002 results include charges of $49.3 million related principally to the shut-down of HSN's Spanish language service, the impairment of PRC goodwill, and the closure of certain of PRC's call centers. Excluding these items, operating income growth would have been 50%. IAC's businesses enabled $4.4 billion in gross transactions, up 36%.

GAAP diluted EPS from continuing operations was $0.09 versus $(0.22) in the prior year. The prior year period was impacted by certain charges including those described above, as well as equity losses in HSN unconsolidated operations, all totaling $125.4 million after-tax or $(0.30) per share. GAAP diluted EPS was $0.16 versus $5.51 in the prior year period. The current year benefited from a $42 million, or $0.07 per share, tax benefit from the shut-down of ECS/Styleclick and Avaltus (a PRC business), and the prior year period included a gain of $2.4 billion after-tax, or $5.77 per share, as a result of the contribution of the Company's entertainment assets to Vivendi Universal Entertainment ("VUE") (the "Vivendi transaction").

IAC's results were led by Travel Services and Electronic Retailing. Expedia and Hotels.com grew revenues 73% and 47%, respectively, driven mainly by continued strength in the merchant lodging and international businesses. Electronic Retailing grew revenue to $527 million, up 18%, as a result of improving domestic results, with HSN U.S. revenue growth of 8%, and strong international growth principally from the inclusion of Euvia in this year's consolidated results and favorable exchange rates.

For the six months ended June 30, 2003, net cash provided by operating activities was $939 million, compared with $439 million in the prior year period. Free Cash Flow was $823 million, compared with $306 million in the prior year period. 2003 results benefited from a positive change in working capital of $490 million, which was driven by a $238 million increase in Expedia deferred merchant bookings and Hotels.com deferred revenue. Based on these strong results, we are targeting $1.4 billion in net cash provided by operating activities for the full year 2003.

Adjusted EPS was $0.18 versus $(0.03) in the prior year period. The prior year period was impacted by certain charges (as described on page 4 and page 8) totaling $103 million after-tax or $(0.16) per adjusted share.

IAC expects to meet or exceed its FY 2003 Adjusted EPS budget of $0.75. Due to non-cash charges, including a Q1 charge of $245 million to the book value of IAC's common interest in VUE and amortization of non-cash compensation and intangibles related to the Ticketmaster and Hotels.com mergers and the pending Expedia merger, we anticipate that FY 2003 GAAP diluted EPS from continuing operations will be significantly lower than budget.

IAC'S PRINCIPLES OF FINANCIAL REPORTING

IAC reports Operating Income before Amortization, Adjusted Net Income, Adjusted EPS and Free Cash Flow, all of which are supplemental measures to GAAP. These measures, among other things, are the primary metrics by which we evaluate the performance of our businesses, on which our internal budgets are based and by which management is compensated. We believe that investors should have access to, and we are obligated to provide, the same set of tools that we use in analyzing our results. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. We provide and encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measures, which we discuss below. It may seem that we have more adjusting items in our reconciliations than other companies. This is mainly because, in our short history, our businesses have changed significantly and we have been very acquisitive in nature. We endeavor to be as plain spoken as possible in explaining these adjustments.

Definitions of IAC's Non-GAAP Measures

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. See below for explanations of these adjustments.

Adjusted Net Income generally captures all income statement items that have been, or ultimately will be, settled in cash and is defined as net income available to common shareholders 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, (4) equity income or loss from IAC's 5.44% interest in VUE, and (5) one-time items, net of related tax and minority interest.

Adjusted EPS is defined as Adjusted Net Income divided by weighted fully diluted shares outstanding for Adjusted EPS purposes. We include dilution from options and warrants per the treasury stock method and include all shares relating to restricted stock/share units ("RSU") in shares outstanding for Adjusted EPS. This differs from the GAAP method for including RSUs, which treats them on a treasury method basis. Shares outstanding for Adjusted EPS purposes are therefore higher than shares outstanding for GAAP EPS purposes.

Free Cash Flow is defined as net cash provided by operating activities, less capital expenditures, investments to fund HSN International unconsolidated operations, net cash collected on behalf of clients by Ticketmaster, and preferred dividends paid. Free Cash Flow includes cash dividends received and tax related payments with respect to the VUE securities.

Pro Forma Results

We have presented Operating Income before Amortization, Adjusted Net Income and Adjusted EPS pro forma for several significant transactions, as if these transactions had been completed as of January 1, 2002: the Vivendi transaction and the Ticketmaster, Hotels.com and pending Expedia mergers. IAC has changed significantly in recent years: first transitioning from a media company to an interactive commerce company, then also into an operating company. We believe that the pro forma results provide investors with better comparisons to prior periods, as well as a better view of ongoing operations and what the company will look like after these transactions have been consummated.

We will only pro forma results if we view a particular transaction as significant in size or transformational in nature. As such, our results are not pro forma for certain smaller transactions such

as the acquisitions of TV Travel Group, Interval and EPI. We also do not intend to present the pending LendingTree transaction on a pro forma basis.

One-Time Items

We only exclude as non-recurring items those that 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, per recently released SEC rules. We have revised our 2002 non-GAAP measures to include certain items that were previously excluded as a result of the new SEC guidance. Actual results include one-time items.

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

Amortization of non-cash compensation expense consists of restricted stock and options expense, which relates mostly to unvested options assumed by IAC in the Ticketmaster, Hotels.com and pending Expedia mergers. We view this expense as part of transaction costs, which are not paid in cash, and we include the related shares in our fully diluted shares outstanding. Non-cash compensation also includes the expense associated with IAC's RSU program. We view the true cost of these RSUs as the dilution to our share base, and as such all RSUs are included in our shares outstanding for Adjusted EPS purposes.

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 the Vivendi transaction. The Hotels.com warrants were principally issued as part of its initial public offering, and we do not anticipate replicating these arrangements. The warrants are in the money and, to the extent the performance criteria are met, are included in our shares outstanding for Adjusted EPS purposes. The non-cash advertising from Universal is primarily for the benefit of Expedia, which runs television advertising primarily on the USA and Sci Fi cable channels without any cash cost. We do not expect to replace this non-cash marketing with an equivalent cash expense after it runs out in 2007, nor would IAC incur such amounts absent the advertising received in the Vivendi 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 we will have significant intangible amortization expense as we continue to acquire companies, we believe that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they were part of transaction costs and will not be replaced with cash costs when the intangibles are fully amortized.

Equity gains/losses from IAC's 5.44% common interest in VUE is excluded from Adjusted Net Income and Adjusted EPS because IAC has no operating control over VUE, has no way to forecast this business, and does not consider the results of VUE in evaluating IAC's performance.

Free Cash Flow

IAC has significant positive working capital balances that benefit Free Cash Flow and are largely due to deferred merchant bookings and deferred revenue related to the merchant lodging business at Expedia and Hotels.com, respectively. Of the $490 million increase in working capital year-to-date, $238 million was related to Expedia deferred merchant bookings and Hotels.com deferred revenue. In our merchant lodging business, cash is collected in advance of stay, and revenue is recognized at the date of travel, after which hotel suppliers invoice Expedia and Hotels.com. Working capital consists of cash deposits from customers, net of revenue recognized as a result of a customer stay, plus the increase in payables to hotel suppliers net of cash paid out in the period.

These balances are comparable to payable and receivable balances in any other company, except that the benefit, or "float", that we get is inherent in our business model. It represents the real cash earning power of our company, and is reflected in increased working capital purely because we recognize revenue at the customer stay date rather than at the booking date. It is similar to any other cash inflow in the normal course of business and we view this as permanent cash that we can put to work. As long as the merchant lodging businesses continue to grow positively, as they have historically, and our business model does not change, we expect that the change in working capital will continue to be positive. If the businesses were to decline or if the model otherwise changed, it would negatively impact working capital and we would communicate this to investors. We expect Free Cash Flow growth to slow in the second half of 2003 due to the seasonal nature of travel bookings.

We look at Free Cash Flow as a measure of the strength and performance of our businesses, not for valuation purposes. In our view, applying "multiples" to Free Cash Flow is inappropriate because it is subject to timing, seasonality and one-time events. We manage our business for cash and we think it is of utmost important to maximize cash but our primary valuation metric is Adjusted EPS. In addition, because Free Cash Flow is subject to timing, seasonality and one-time events, we believe it is not appropriate to annualize quarterly Free Cash Flow results.

Free Cash Flow has certain limitations in that it does not represent the total increase or decrease in the cash balance for the period. For example, it does not take into account treasury stock repurchases. Therefore, we think it is important to evaluate Free Cash Flow along with our consolidated statement of cash flows.

SEGMENT RESULTS

IAC reported the following segment results for the second quarter ended June 30 ($ in millions):

	Q2 2003	Q2 2002	Growth
REVENUE			
Travel Services	$ 653.4	$ 379.1	72%
Electronic Retailing	527.1	446.3	18%
Ticketing	187.5	175.4	7%
Personals	48.2	29.7	62%
Local Services	45.2	7.6	495%
Teleservices	69.5	71.8	-3%
Other	(4.4)	(2.8)	-60%
Total	$ 1,526.5	$ 1,107.1	38%
OPERATING INCOME			
Travel Services	$ 88.7	$ 44.2	101%
Electronic Retailing	39.0	11.8	229%
Ticketing	28.2	31.7	-11%
Personals	7.6	6.7	14%
Local Services	(19.2)	(19.5)	1%
Teleservices	1.7	(29.3)	NM
Corporate and other	(34.3)	(20.3)	-69%
Total	$ 111.8	$ 25.4	339%
OPERATING INCOME BEFORE AMORTIZATION (pro forma)			
Travel Services	$ 132.5	$ 69.2	92%
Electronic Retailing	51.5	12.0	330%
Ticketing	36.1	34.7	4%
Personals	10.2	7.7	32%
Local Services	(4.3)	(7.4)	42%
Teleservices	1.7	(7.0)	NM
Corporate and other	(24.8)	(18.1)	-37%
Total	$ 202.9	$ 91.0	123%

The acquisitions of TV Travel Shop, Interval, EPI and uDate closed on May 1, 2002, September 24, 2002, March 25, 2003, and April 4, 2003, respectively, and results from these companies are therefore not included in the full prior year period.

During the second quarter of 2002, IAC incurred a $49.3 million charge to operating income, including $22.2 million related to goodwill impairment at PRC, $17.8 million related to the shut-down of HSN's Spanish language service and $9.3 million related principally to the closure of certain of PRC's call centers. Excluding these amounts from 2002, operating income growth would have been 50% and Operating Income before Amortization growth would have been 72%.

Operating income is presented on an actual basis, with no pro forma adjustments. Please see pages 14-15 for further segment detail and full reconciliations of Operating Income before Amortization to operating income.

DILUTIVE SECURITIES

IAC has various tranches of dilutive securities (warrants, convertible preferred, and options), including securities initially issued by subsidiaries, which have been, or, upon completion of pending merger transactions, will be, converted to IAC securities. The table below details these securities as well as potential dilution at various stock prices (amounts in millions, except average strike/conversion price):

	Shares	Avg. Strike/ Conversion	Dilution at:				As of 7/15/03
Average Share Price			**$ 40.00**	**$ 45.00**	**$ 50.00**	**$ 55.00**	**$ 41.91**
Pro Forma Basic Shares as of 7/15/03	**705.8**		**705.8**	**705.8**	**705.8**	**705.8**	**705.8**
RSUs	4.6		4.6	4.6	4.6	4.6	4.6
Options (pro forma)	106.2	$ 11.25	44.1	50.1	54.9	58.8	46.5
Warrants:							
Issued in Vivendi deal:							
Tranche 1	24.2	$ 27.50	7.6	9.4	10.9	12.1	8.3
Tranche 2	8.0	$ 32.50	1.5	2.2	2.8	3.3	1.8
Issued in Expedia deal	14.6	$ 35.10	1.8	3.2	4.3	5.3	2.4
Ticketmaster	4.2	$ 42.69	0.6	0.8	1.0	1.2	0.7
Expedia	24.3	$ 13.39	16.1	17.0	17.7	18.3	16.5
Hotels.com:							
Tranche 1	1.2	$ 7.86	0.3	0.3	0.3	0.3	0.3
Performance based	3.9	set when earned	0.0	0.0	0.0	0.0	0.0
Convertible Preferred	19.4	$ 33.75 (initial)	20.2	20.8	21.3	21.7	20.5
Total Dilution			**96.7**	**108.5**	**117.9**	**125.7**	**101.5**
% Dilution			*12.1%*	*13.3%*	*14.3%*	*15.1%*	*12.6%*
Diluted Shares Outstanding			**802.5**	**814.3**	**823.7**	**831.5**	**807.3**
Treasury method shares, options, warrants to be issued in pending LendingTree transaction:			19.6	19.7	19.8	19.9	19.7
Diluted Shares Outstanding including LendingTree			**822.1**	**834.0**	**843.5**	**851.3**	**827.0**

IAC has outstanding approximately 4.6 million RSUs (pro forma for the pending Expedia merger) which vest principally over a period of two to five years, including 4.1 million RSUs issued in 2003. Ultimately we expect our RSU program to result in dilution to adjusted shares of approximately 2% to 3% over the next 5 years.

IAC's share count has grown as a result of completed and pending transactions and dilution from options and warrants due to our stock performance over the period. We now estimate that pro forma weighted average shares outstanding for Adjusted EPS purposes will be approximately 825 million in Q3, 845 million in Q4 and 790 million for the full year 2003. Actual shares may fluctuate based on several factors, including the timing of the pending LendingTree transaction, exercise of options and warrants and our future stock performance, and would also be reduced to the extent we repurchase shares.

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LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2003, IAC had $5.0 billion in cash and marketable securities. This includes $133.9 million in net cash collected on behalf of clients by Ticketmaster, $331.1 million in deferred merchant bookings at Expedia and $132.9 million in deferred revenue at Hotels.com.

As of June 30, 2003, IAC had long-term debt of $1.2 billion, consisting mainly of 6.75% Senior Notes due 2005 and 7.00% Senior Notes due 2013. IAC also has convertible preferred stock with a balance sheet carrying value based on the par value of $0.01 per share and a face value of $656 million. The convertible preferred is initially convertible at $33.75 (subject to downward adjustment if the price of IAC common stock is more than $35.10 at the time of conversion), and the underlying shares are included in shares outstanding for Adjusted EPS purposes.

For the six months ended June 30, 2003, net cash provided by operating activities was $939 million, compared with $439 million in the prior year's period. Free Cash Flow was $823 million, compared with $306 million in the prior year period. The increase was driven mainly by strong operating performance and increased contributions to working capital from Expedia deferred merchant bookings and Hotels.com deferred revenue and from HSN U.S. The increase in working capital was $490 million compared with $204 million in the prior year's period, including Expedia deferred merchant bookings and Hotels.com deferred revenue which increased in the aggregate by $238 million compared with $110 million in the prior year's period. Below is a reconciliation of net cash provided by operating activities to Free Cash Flow for the six months ended June 30 ($ in millions):

	Six Months Ended June 30,	
	2003	2002
Net Cash Provided by Operating Activities	$ 938.7	$ 438.5
Capital expenditures	(87.0)	(73.0)
Funding to unconsolidated subsidiaries by HSN		(26.5)
Ticketmaster net cash collected on behalf of clients	(23.7)	(29.7)
Tax distributions from VUE	1.4	
Preferred dividend paid	(6.5)	(3.7)
Free Cash Flow	$ 823.0	$ 305.6

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DISCUSSION OF FINANCIAL AND OPERATING RESULTS

TRAVEL SERVICES

For the quarter, Travel Services revenue grew 72% to $653.4 million from $379.1 million, operating income increased 101% to $88.7 million from $44.2 million and Operating Income before Amortization increased 92% to $132.5 million from $69.2 million. Growth was primarily driven by strong results at Expedia and Hotels.com and the inclusion of Interval results in 2003.

Expedia's gross bookings increased to over $2 billion for the first time in a quarter, an increase of 53%. Expedia's revenue increased 73% to $247.5 million due to higher revenue per air ticket and an increase in merchant hotel room nights stayed of 80%. Hotels.com's revenue grew 47% to $337.7 million on a 53% increase in room nights stayed. Interval, which was not included in the prior year period, contributed 21% of Travel Services revenue dollar growth in the quarter and performed strongly in a difficult environment for the time share industry. International revenue for Travel Services grew 101% to $89.2 million from $44.4 million. $4.3 million of the increase was related to favorable exchange rates.

During Q2, Expedia Corporate Travel delivered upgrades to satisfy the heavily managed travel needs of its corporate customers, such as powerful policy controls, robust reporting, and customer service options, including a Custom Service Level of dedicated agents, an International rate desk, and Executive services. Expedia rose to the No. 4 spot in Travel Weekly's Top 50 travel agencies list for 2002, up from No. 8 in 2001, and maintained its position as the largest U.S. online travel agency. The hotels.com brand generated 41% of Hotels.com cash bookings in Q2.

ELECTRONIC RETAILING

For the quarter, Electronic Retailing revenue increased 18% to $527.1 million from $446.3 million, operating income increased 229% to $39.0 million from $11.8 million and Operating Income before Amortization increased 330% to $51.5 million from $12.0 million. 2002 results included a charge of $17.8 million related to the shut-down of HSN's Spanish language service.

HSN U.S. continued its positive momentum with strong results driven by the health and beauty business. Revenue increased by 8%, operating income decreased by 9% and Operating Income before Amortization increased by 25%. Operating income decreased due to higher intangibles amortization resulting from the step-up in book value in connection with the Vivendi transaction. HSN.com accounted for 14% of sales versus 11% in the prior year period and off-air sales continued to grow in the double digits, driven by the Autoship business, which reached a record 300,000 enrollments and record upsell take rates of 14%.

HSN International revenue increased 73% to $122.8 million from $70.9 million, driven primarily by the inclusion of Euvia in 2003 results and favorable exchange rates. HSN Germany sales increased 6% on a Euro-equivalent basis.

TICKETING

For the quarter, Ticketing revenue grew 7% to $187.5 million from $175.4 million. Revenue growth was driven by higher revenue per ticket, offset by a slight decrease in tickets sold. The war in Iraq had caused a shift of summer concert ticket onsales to the first quarter, contributing to a 4% decline in second quarter domestic ticket sales. International ticket sales increased 8% due primarily to acquisitions in the Netherlands and Denmark. Operating income decreased 11% to $28.2 million from $31.7 million due to higher intangibles amortization resulting from the step-up in book value in connection with the Ticketmaster merger as well as higher variable costs including higher client commissions, credit card fees and costs relating to ticketing for the 2004 Olympic Games, offset partially by the resolution of $2.5 million in tax contingencies. Operating Income before Amortization

increased 4% to $36.1 million from $34.7 million. Unit ticket sales for the second half of 2003 are expected to be down slightly from the prior year period.

Online sales reached their highest levels ever at 51% in Q2, up from 43% in Q2 2002. During the period, Ticketmaster launched the American Express Ticket Savings Center with more than 20 clients to move excess inventory by offering a 15% or greater discount to American Express cardholders. Ticketmaster also launched its first primary market auction product with STAPLES Center for the World Heavyweight Championship title fight.

PERSONALS

Personals revenue increased 62% to $48.2 million from $29.7 million, operating income increased 14% to $7.6 million from $6.7 million and Operating Income before Amortization increased 32% to $10.2 million from $7.7 million. The acquisition of uDate accounted for 34% of revenue dollar growth in the quarter.

Paid member count at the end of the quarter increased to 857.5 thousand from 766.6 thousand at the end of Q1, including 135.2 thousand members from uDate. As expected, excluding uDate, paid member count did not increase sequentially in Q2, as Q2 is seasonally weak for the personals business and the Company did not market aggressively in advance of the relaunch of its new web site. The Company launched Match 5.0 on June 12, streamlining the user experience and adding new, valuable communication features, and expects to increase its paid member count in the second half of the year, as response to the new website has been excellent to date.

During Q2, Match.com signed on several new affiliate partners, including Comcast and major portals in Brazil, France and Spain. Additionally, Match.com entered into an exclusive deal with AOL UK to power the AOL Personals channel.

LOCAL SERVICES

For the quarter, Local Services revenue increased 495% to $45.2 million from $7.6 million, operating income improved to a loss of $19.2 million from a loss of $19.5 million and Operating Income before Amortization improved to a loss of $4.3 million from a loss of

$7.4 million. Excluding the results of EPI which was acquired on March 25, 2003, revenue increased by 10%, operating income improved to a loss of $15.9 million and Operating Income before Amortization improved to a loss of $3.4 million.

During Q2, Citysearch launched an optimization engine for its Pay-for-Performance ("PFP") product aimed at delivering the most relevant ads to consumers at the most opportune times. Citysearch increased the number of PFP locations to approximately 14,600 as of end of Q2, as compared to approximately 1,000 PFP locations at the end of Q1. More than 8,200 of the PFP customers are brand new to Citysearch, including eBay, Marriott, Sephora, Quiznos and ServiceMaster. EPI launched a beta version of a digital alternative to its Entertainment® book, enabling consumers to purchase online memberships for as low as $2.99 per month. The digital subscription enables consumers to print offers directly from the entertainment.com website. An advanced version of the digital subscription and a site re-launch are expected to occur later this year.

OTHER

We have increased our corporate staff as we have transitioned to becoming an operating company. Corporate expenses in Q2 were higher than the prior year due mainly to higher compensation expense related to the increased staffing, and increased payroll taxes related to stock option exercises.

In addition to the $49.3 million charge to operating income in Q2 2002 described on page 4, prior year results also included a charge of $88.4 million in equity losses in unconsolidated affiliates. The total

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charges to net income were $125.4 million after-tax, or $(0.30) per share, and the total charges to Adjusted Net Income were $103 million after-tax, or $(0.16) per adjusted share.

TAX RATE

In Q2, IAC had a tax rate of 35% for purposes of calculating Adjusted Net Income and 37% for purposes of calculating net income from continuing operations, each of which includes the reversal of certain tax allowances in the quarter. We anticipate higher tax rates during the rest of the year.

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IAC OPERATING METRICS

		Q2 2003		Q2 2002		Growth
EXPEDIA						
Gross Bookings (mm):						
Total gross bookings	(a)	$	2,046	$	1,335	53%
Agency gross bookings			1,369		937	46%
Merchant gross bookings (includes CCV)	(b)		677		398	70%
International gross bookings			233		94	148%
North America gross bookings			1,813		1,241	46%
Additional Metrics (000s):						
Revenue from packages		$	74,712	$	41,527	80%
Total room nights stayed			4,592		2,627	75%
Merchant room nights stayed			3,731		2,077	80%
Merchant hotel average daily rate (excludes CCV)		$	124	$	120	3%
Customers (000s):						
Average monthly Media Metrix reach	(c)		16,437		12,161	35%
Expedia.com conversion	(d)		6.4%		6.3%	

		Q2 2003	Q2 2002	Growth
New purchasing customers (000s)	(e)	2,184	1,529	43%
Cumulative purchasing customers (000s)	(f)	16,381	9,139	79%
Unique purchasing customers (000s)	(g)	3,213	2,217	45%
HOTELS.COM				
Room nights stayed (net of cancels) (000s)		2,875	1,883	53%
Average daily rate		$ 113.51	$ 118.95	-5%
Affiliates (including TravelNow)		39,382	28,340	39%
Cities served		409	243	68%
U.S.		212	154	38%
International		197	89	121%
Properties under contract		8,494	6,467	31%
INTERVAL	(h)			
Active members		1,546,922	1,433,390	8%
Total confirmations		201,813	180,731	12%
Share of confirmations online		12.3%	8.7%	
HSN U.S. (Households as of end of period)				
Units Shipped (mm)	(i)	9.9	9.5	4%
Gross Profit %		38.6%	38.4%	
Return Rate		18.3%	18.7%	
Average price point		$ 45.15	$ 43.38	4%
Product mix:				
Home Hard Goods		24%	22%	
Home Fashions		12%	13%	
Jewelry		24%	26%	
Health / Beauty		28%	23%	
Apparel / Accessories		12%	16%	
HSN total homes (mm)		79.2	77.1	3%
HSN FTEs (mm)	(j)	69.8	67.7	3%
HSN.com % of Sales		14%	11%	
TICKETING				

Number of tickets sold (mm)		24.1	24.3	-1%
Gross value of tickets sold (mm)		$ 1,199	$ 1,144	5%
Share of tickets sold online		51.1%	43.0%	
PERSONALS	(k)			
Paid Subscribers (000s)		857.5	604.2	42%
New Registrations (000s)		4,460.0	3,284.5	36%
New Subscriptions first time subs (000s)		404.1	313.2	29%

Conversion rate registrations to subscriptions	9.1%	9.5%

(a) Gross bookings represents the total value of travel booked through the Expedia, WWTE sites, Classic Custom Vacations and Metropolitan Travel since acquisition.

(b) Includes taxes and fees.

(c) Average monthly Media Metrix reach represents the unduplicated reach for the Expedia sites.

(d) Conversion represents the monthly average Expedia.com unique monthly purchasers divided by the monthly average Media Metrix reach for the Expedia.com site.

(e) Expedia new purchasing customers represents the number of new customers transacting through the Expedia sites in a quarter.

(f) Expedia cumulative purchasing customers represents the cumulative number of customers that have ever transacted through the Expedia sites as of the end of a quarter.

(g) Expedia quarterly unique purchasing customers represents the number of unique customers transacting through the Expedia sites over the course of a quarter.

(h) Not owned by IAC in prior period.

(i) Units do not include Liquidation and services.

(j) FTEs reflect a 50% weighting of DBS homes, in order to more accurately reflect the actual performance of these subs and adjust for the impact of their significant growth as a percentage of total HSN distribution.

(k) Operating metrics include the impact of Soulmates and uDate as of the acquisition dates of April 12, 2002 and April 4, 2003.

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

IAC CONSOLIDATED STATEMENT OF OPERATIONS

(unaudited; $ in thousands except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Product sales	$ 564,022	$ 446,672	$ 1,095,421	$ 909,114
Service revenue	962,489	660,396	1,817,824	1,156,615

	Three Months Ended June 30,		Six Months Ended June 30,	
Net revenue	1,526,511	1,107,068	2006	
Long-lived assets:				
United States	$ 30,092	$ 24,447	$ 30,246	
Germany	5,722	4,697	5,406	
Other	1,249	917	921	
	$ 37,063	$ 30,061	$ 36,573	

K. Guarantor s Disclosure Requirements

Guarantee of original lease

The Company has assigned the lease of its former office space in Reading, Great Britain to a third party. If the third party defaults on the monthly lease payments, the Company would be responsible for the payments until the lease expires on July 14, 2009. If the third party were to default, the maximum amount of future payments (undiscounted) the Company would be required to make under the guarantee would be approximately $519 through July 14, 2009. The Company has not recorded any liability for this item, as it does not believe that it is probable that the third party will default on the lease payments.

Product Warranties

Generally, the Company s products are covered under a one-year warranty; however, certain products are covered under a two or three-year warranty. It is the Company s policy to accrue for all product warranties based upon historical in-warranty repair data. In addition, the Company accrues for specifically identified product performance issues. The Company also offers extended warranties for certain of its products for which revenue is recognized over the life of the contract period. The costs associated with servicing the extended warranties are expensed as incurred. The revenue, as well as the costs related to the extended warranties is immaterial for the three and six month periods ending March 31, 2007 and 2006.

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A reconciliation of the estimated changes in the aggregated product warranty liability for the three and six month periods ending March 31, 2007 and 2006 is as follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2007	2006	2007	2006
Beginning balance	$ 1,009	$ 963	$ 992	$ 1,084
Accruals for warranties issued during the period	241	402	630	658
Accruals related to pre-existing warranties (including changes in estimates and expiring warranties)	(29)	(104)	(32)	(155)
Settlements made (in cash or in kind) during the period	(352)	(351)	(721)	(677)
Balance at March 31	$ 869	$ 910	$ 869	$ 910

L. Pension Benefits

The Company has a noncontributory defined benefit pension plan covering all of its eligible employees in the United States and a contributory defined plan covering certain non-U.S. employees. Pension benefits are based upon the employee s length of service and a percentage of compensation. A summary of the components of net periodic pension cost based upon a measurement date of June 30 for the U.S. plan and the non-U.S. plan is shown below:

	United States Plan For the Three Months Ended March 31,		Non U.S. Plan For the Three Months Ended March 31,	
	2007	2006	2007	2006
Service costs-benefits earned during the period	$ 355	$ 411	$ 59	$ 52
Interest cost on projected benefit obligation	551	500	81	67
Expected return on plan assets	(783)	(722)	(16)	(20)
Net loss recognition	17	109		
Amortization of transition asset		(2)	7	6
Amortization of prior service cost	45	44	1	1
Net periodic benefit cost	$ 185	$ 340	$ 132	$ 106

	United States Plan For the Six Months Ended March 31,		Non U.S. Plan For the Six Months Ended March 31,	
	2007	2006	2007	2006
Service costs-benefits earned during the period	$ 710	$ 821	$ 118	$ 104
Interest cost on projected benefit obligation	1,102	1,000	162	133
Expected return on plan assets	(1,565)	(1,445)	(32)	(39)
Net loss recognition	33	219	1	
Amortization of transition asset		(5)	12	11
Amortization of prior service cost	89	89	2	2

Net periodic benefit cost	$ 369	$ 679	$ 263	$ 211

The Company also has an unfunded supplemental retirement plan (SERP) for former key employees, which includes retirement, death and disability benefits. Net periodic benefit cost for this plan was not material to the Company s consolidated financial statements for the three and six month periods ended March 31, 2007 and 2006.

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M. Income Taxes

For the six months ended March 31, 2007, we recorded a tax benefit of $556 on income before taxes of $446 resulting in an effective tax benefit rate of 124.7 percent, as compared with income tax expense of $1,605 on income before taxes of $5,629 or an effective tax rate of 28.5 percent for the same period in the prior year.

During the 2007 first quarter, we recorded a favorable discrete tax adjustment of $882 associated with the retroactive application of research tax credits for the period of January 1, 2006 through September 30, 2006. This benefit was not recognized during the fiscal year ended September 30, 2006 as the research tax credit had expired and was not extended until December of 2006. Without regard to discrete items, such as the prior year research tax credit, the tax rate for the six months ended March 31, 2007 would have been 10.8 percent.

For the first six months of fiscal year 2007, the effective tax rate was less than the U.S. federal statutory tax rate due to the favorable impacts of the research tax credit described above, and a full year of research tax credits in fiscal 2007 and the impact it has on lower earnings in fiscal 2007. The effective tax rate for fiscal year 2006 includes only one quarter of research tax credits.

For the first six months of fiscal year 2006, the effective tax rate was less than the U.S. federal statutory tax rate due to adjustments in the valuation allowance for the utilization of foreign tax credits and extraterritorial income exclusion on U.S. exports. These benefits were partially offset by earnings at foreign subsidiaries being taxed at rates higher than the U.S. statutory rate.

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

This Management s Discussion and Analysis of Financial Condition and Results of Operations is intended to provide investors with an understanding of the Company s operating performance and financial condition. A discussion of our business, including our strategy, products, and competition is included in Part I of our 2006 Form 10-K.

Business Overview

Our business is to design, develop, manufacture and market complex electronic instruments and systems geared to the specialized needs of electronics manufacturers for high-performance production testing, process monitoring, product development and research. Our primary products are integrated systems used to source, measure, connect, control or communicate electrical direct current (DC), radio frequency (RF) or optical signals. Our customers are engineers, technicians and scientists in manufacturing, product development and research functions. During the first half of fiscal 2007, semiconductor orders comprised approximately one-third of the total, wireless communications orders were approximately 10 percent of the total, precision electronic components and subassembly manufacturers orders were approximately 25 percent of the total, and research and education orders were approximately 20 percent of the total. The remainder of orders came from customers in a variety of other industries. Although our products vary in capability, sophistication, use, size and price, they generally test, measure and analyze electrical, RF, optical or physical properties. As such, we consider our business to be in a single industry segment.

Many of the industries we serve, including but not limited to the semiconductor industry, the wireless communications industry, and precision electronic components and subassembly manufacturers, have historically been very cyclical and have experienced periodic downturns. We experienced a softening in orders during the second quarter of fiscal 2007 reflecting a reduction in capital equipment spending by our customers. We believe that our ability to grow revenue will be driven by our customers spending patterns as they invest in new capacity or upgrade their lines for their new product offerings, our ability to gain market share, and the success of our new products. Our business development strategy is to offer interrelated products with differentiated value that solve our customers most compelling test challenges, coupled with our success in penetrating key accounts with our globally deployed sales and service team. We continue to believe that our strategy of pursuing a focused set of applications will allow us to grow faster than the overall test and measurement industry.

Our focus during the past several years has been on building long-term relationships and strong collaborative partnerships with our global customers to serve their measurement needs. Toward that end, we have been moving toward employing our own sales personnel to sell our products, as opposed to selling our products through sales representatives to whom we pay a commission. The change in our sales channel allows us to build a sales network of focused, highly trained sales engineers who specialize in measurement expertise and problem-solving for customers and enhances our ability to sell our products to customers with worldwide operations. We believe our ability to serve our customers has been strongly enhanced by deploying our own employees throughout the Americas, Europe and Asia. We expect that selling through our own sales force will be favorable to earnings during times of strong sales and unfavorable during times of depressed sales as a greater portion of our selling costs are now fixed. Over the past several years we have incurred costs for the transition to new ERP and CRM software systems. Implementations that have occurred to date have caused minimal disruptions to our business; however, we will continue our ERP and CRM technology upgrades in various locations throughout the world in fiscal 2007 and beyond. We continue to believe that both the semiconductor and wireless areas are the center of change within the electronics industry. These technology changes create many opportunities for us, and the success we have experienced serving applications for our customers makes these opportunities even more compelling. We believe new products will drive our future growth. In fiscal 2004, we opened a west coast development center, the sole focus of which is to develop our new RF product family. RF measuring is increasingly becoming an important part of our customers requirements, as they are incorporating RF technology into their products. We have further increased our product development activities to expand our product offering and accelerate the introduction of new products. Additionally, advances in technology require us to enhance our parametric test platforms to respond to our customers changing needs. We have chosen to accelerate some development initiatives to take advantage of opportunities to capture market share and grow our sales. While we focus on these important initiatives, we will continue investing in our precision DC and current-voltage (I-V) product lines, as they serve the same core set of customers.

Critical Accounting Policies and Estimates

Management has identified critical accounting policies. These policies have the potential to have a more significant impact on our financial statements, either because of the significance of the financial statement item to which they relate or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which will be settled in the future. These critical accounting policies and estimates are described in Management s Discussion and Analysis included in our 2006 Form 10-K, and include use of estimates, revenue recognition, inventories, income taxes, pension plan and a fuller description of stock compensation plans.

Stock compensation plans:

During the second quarter of fiscal year 2007, we revised our estimate of the expected life of stock options from 4.5 years in fiscal 2006 to 4.75 years for the second quarter of fiscal year 2007. In revising this estimate, we considered several factors, including the historical option exercise behavior of our employees, historical cancellation rates of past options, and the current life of options outstanding and vested. Our review of our most current data indicates that our average expected option life is 4.75 years. SFAS No. 123R also requires us to estimate an expected forfeiture rate when recognizing compensation cost. In the past we had used an 8% forfeiture rate for all stock options, performance award units, and restricted award units. Beginning in the second quarter of fiscal year 2007, we revised our estimated forfeiture rate for stock options to 3% and for performance award units to 5%. Our review of our most current data indicates that the rates as adjusted are more indicative of expected future expense. The resulting cumulative adjustment for the change in rates was not material to our financial results.

Results of Operations

Second Quarter Fiscal 2007 Compared with Second Quarter Fiscal 2006

Net sales of $32,930 for the second quarter of fiscal 2007 decreased 17 percent as compared to the prior year s second quarter sales of $39,679. The effect of a weaker U.S. dollar positively impacted sales by approximately one percentage point. Geographically, sales were down 31 percent in the Americas, down 23 percent in Europe, and up one percent in Asia. On a sequential basis, sales decreased 20 percent from the first quarter of fiscal year 2007. We experienced a softening in orders during the second quarter of fiscal 2007 reflecting a reduction in capital equipment spending by our customers.

Orders of $33,324 for the second quarter decreased 18 percent compared to last year s orders of $40,631. Geographically, orders decreased 40 percent in the Americas, decreased 14 percent in Europe, and increased six percent in Asia when compared to the prior year. Orders from the Company s semiconductor customers decreased

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approximately 40 percent, orders from wireless communications customers decreased approximately 20 percent, orders from precision electronic component/subassembly manufacturers were flat, and research and education customer orders increased approximately 20 percent compared to the prior year s second quarter. Sequentially, orders decreased 10 percent from the first quarter of fiscal 2007, primarily due to lower wireless communication customer orders. Order backlog increased $1,171 during the quarter to $13,452 as of March 31, 2007. The Company does not track net sales in the same manner as it tracks orders by major customer group. However, sales trends generally correlate to Company order trends although they may vary between quarters depending upon the orders which remain in backlog.

Cost of goods sold as a percentage of net sales increased to 40.4 percent from 39.0 percent in the prior year s second quarter. The increase was due to an unfavorable product mix and fixed manufacturing costs being spread over lower sales volume. This was partially offset by the four percent weaker U.S. dollar. Nearly all products the Company sells are manufactured in the United States; therefore, cost of goods sold expressed in dollars is generally not affected by changes in foreign currencies. However, as a percentage of net sales, it is affected as net sales dollars fluctuate due to currency exchange rates changes. The effect of foreign exchange hedging on cost of goods sold was not material in either the second quarter of fiscal 2007 or fiscal 2006.

Selling, general and administrative expenses of $16,324, or 49.6 percent of net sales, increased $618, or four percent, from $15,706, or 39.6 percent of net sales, in last year s second quarter. Approximately half the increase was due to costs associated with the stock option investigation and litigation. The other half was due to foreign exchange revaluation costs as a result of the weaker U.S. dollar.

Product development expenses for the quarter were $6,501, or 19.7 percent of net sales, up $530, or nine percent, from last year s $5,971, or 15.0 percent of net sales**.** The increase is primarily a result of our increased investment in product development activities to expand our product offering and accelerate the development of new products.

The Company reported an operating loss for the second quarter of fiscal 2007 of $3,185 compared to operating income of $2,538 for the prior year s quarter. Lower sales and higher operating expenses accounted for the decrease.

Investment income was $555 for the quarter compared to $472 in last year s second quarter. Higher interest rates accounted for the increase.

The Company recorded an income tax benefit at a 21.4 percent rate and income tax expense at a 30.3 percent rate for the second quarter of fiscal 2007 and 2006, respectively. The rate in the 2007 quarter was lower than the statutory rate due primarily to the favorable impact of research tax credits, partially offset by an increase in the Company s tax reserve. The rate in 2006 was lower than the statutory rate due to an adjustment in the valuation allowance for the utilization of foreign tax credits and extraterritorial income exclusion benefits, partially offset by higher foreign taxes.

The Company reported a net loss for the quarter of $2,073, or $0.13 per share, compared to net income of $2,098, or $0.13 per diluted share, in last year s second quarter. Lower sales and higher operating expenses, as described above, accounted for the net loss.

Six Months Ended March 31, 2007 Compared with Six Months Ended March 31, 2006

Net sales of $73,956 for the six months ended March 31, 2007 decreased two percent from $75,469 reported for the six month period last year. The effect of a weaker U.S. dollar positively impacted sales by approximately two percentage points. Geographically, net sales were down 19 percent in the Americas, up one percent in Europe, and up 11 percent in Asia.

Orders of $70,229 for the six months ending March 31, 2007 decreased six percent from $74,427 last year. Geographically, orders decreased 25 percent in the Americas, decreased 15 percent in Europe, and increased 26 percent in Asia. See the Overview section of Management s Discussion and Analysis of Financial Condition and Results of Operations for a breakout of the first six months of fiscal 2007 orders by major industry group.

Cost of goods sold as a percentage of net sales increased to 39.8 percent from 38.5 percent for the six month period last year. The increase was due primarily to unfavorable product and customer mix, partially offset by a five percent weaker U.S. dollar. Nearly all products the Company sells are manufactured in the United States; therefore, cost of

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goods sold expressed in dollars is generally not affected by changes in foreign currencies. However, as a percentage of net sales, it is affected as net sales dollars fluctuate due to currency exchange rate changes. The effect of foreign exchange hedging on cost of goods sold was not material in either period.

Selling, general and administrative expenses of $32,937, or 44.6 percent of net sales, increased seven percent from $30,709, or 40.7 percent of net sales, in the same period last year. Approximately 60 percent of the increase was due to costs associated with the stock option investigation and litigation. The majority of the remaining increase was due to increased sales and support costs as well as foreign exchange revaluation costs resulting from the weaker U.S. dollar.

Product development expenses for the first six months of fiscal 2007 of $12,247, or 16.5 percent of sales, were up $1,261, or 11 percent, from $10,986, or 14.5 percent of net sales, for the same period last year. The increase was primarily a result of our increased investment in product development activities to expand our product offering and accelerate the development of new products.

Investment income during the first six months of fiscal 2006 was $1,133 versus $912 for the same period in the prior year. Higher interest rates accounted for the increase.

For the six months ended March 31, 2007, we recorded a tax benefit of $556 on income before taxes of $446 resulting in an effective tax benefit rate of 124.7 percent, as compared with income tax expense of $1,605 on income before taxes of $5,629 or an effective tax rate of 28.5 percent for the same period in the prior year. During the 2007 first quarter, we recorded a favorable discrete tax adjustment of $882 associated with the retroactive application of research tax credits for the period of January 1, 2006 through September 30, 2006. This benefit was not recognized during the fiscal year ended September 30, 2006 as the research tax credit had expired and was not extended until December of 2006. Without regard to discrete items, such as the prior year research tax credit, the tax rate for the six months ended March 31, 2007 would have been 10.8 percent. For the first six months of fiscal year 2007, the effective tax rate was less than the U.S. federal statutory tax rate due to the favorable impacts of the research tax credit described above, and a full year of research tax credits in fiscal 2007 and the impact it has on lower earnings in fiscal 2007. The effective tax rate for fiscal year 2006 includes only one quarter of research tax credits. For the first six months of fiscal year 2006, the effective tax rate was less than the U.S. federal statutory tax rate due to adjustments in the valuation allowance for the utilization of foreign tax credits and extraterritorial income exclusion on U.S. exports. These benefits were partially offset by earnings at foreign subsidiaries being taxed at rates higher than the U.S. statutory rate.

Net income for the first six months of fiscal 2007 was $1,002, or $0.06 per diluted share, compared with $4,024, or $0.24 per diluted share, last year. Lower sales and higher operating costs, partially offset by a favorable tax item accounted for the decrease.

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Financial Condition, Liquidity and Capital Resources

Working Capital

The following table summarizes working capital as of March 31, 2007 and September 30, 2006:

	March 31	September 30
Current assets:		
Cash and cash equivalents	$ 18,985	$ 10,501
Short-term investments	33,425	36,203
Refundable income taxes	314	583
Accounts receivable and other, net	17,090	26,836
Total inventories	15,189	14,647
Deferred income taxes	3,966	4,206
Prepaid expenses	2,170	1,664
Total current assets	91,139	94,640
Current liabilities:		
Short-term debt	576	872
Accounts payable	6,950	8,033
Accrued payroll and related expenses	4,691	6,089
Other accrued expenses	4,241	4,870
Income taxes payable	2,526	2,733
Total current liabilities	18,984	22,597
Working capital	$ 72,155	$ 72,043

Working capital increased during the quarter by $112, as decreases in current assets were mostly offset by decreases in current liabilities. Accounts receivable and other, net decreased $9,746 during the first half of fiscal year 2007, due primarily to lower sales during the month of March versus September. Days sales outstanding were 48 at March 31, 2007 versus 53 at September 30, 2006. Prepaid expenses increased primarily due to the timing of the payment of insurance premiums. Accounts payable decreased due to lower purchases resulting from our lower sales volume. Accrued payroll and related expenses decreased primarily due to the cash payment of fiscal 2006 annual incentive compensation and lower similar accruals for the first six months of fiscal 2007. Significant changes in cash and cash equivalents and short-term investments are discussed in the Sources and Uses of Cash section below.

Sources and Uses of Cash

The following table is a summary of our Condensed Consolidated Statements of Cash Flows:

	For the Six Months Ended March 31,	
	2007	2006
Cash provided by (used in):		
Operating activities	$8,436	$ 2,547
Investing activities	582	(7,273)
Financing activities	(919)	(649)

Operating activities. Cash provided by operating activities of $8,436 for the first half of fiscal year 2007 increased $5,889 as compared with the same period last year. Lower net income was offset by favorable changes in working capital, due mainly to cash provided through accounts receivable of $10,139 in the 2007 period, versus cash used for accounts receivable of $4,646 in the prior year s period. Lower sales as well as an improvement in receivables management accounted for the change as described above in Working Capital. Other adjustments to reconcile net earnings to net cash provided by operating activities are presented on the Condensed Consolidated Statements of Cash Flows.

Investing activities. Cash provided by investing activities was $582 for the first half of fiscal year 2007 compared with cash used of $7,273 in the same period last year. Payments for property, plant and equipment were similar in both periods. We purchased short-term investments of $14,496 and sold short-term investments of $17,348 during the 2007 period. During the first half of fiscal 2006, we purchased short-term investments of $24,903 and sold short-term investments generating $19,959 in cash. Short-term investments totaled $33,425 at March 31, 2007 as compared to $45,755 at March 31, 2006.

Financing activities. Cash used in financing activities was $919 in the first half of fiscal year 2007 as compared to $649 last year. We repaid a net $302 of short-term debt in the current year s quarter versus borrowing $255 in the prior year s quarter. Short-term debt at March 31, 2007 totaled $576 versus $255 at March 31, 2006. We paid dividends to shareholders during the 2007 period of $1,183 as compared to $1,204 last year. We did not repurchase any of our Common Shares during the first half of fiscal year 2007 or 2006. See Note F. The excess tax benefits related to stock-based compensation recognized during the first half of fiscal year 2007 was $270 versus $70 in 2006.

We expect to finance capital spending and working capital requirements with cash and short-term investments on hand, cash provided by operations and our available lines of credit. At March 31, 2007, we had available unused lines of credit with domestic and foreign banks aggregating $13,886, of which $10,000 is long-term and $3,886 is a combination of long-term and short-term depending upon the nature of the indebtedness. See Note G.

Outlook

We have implemented operating cost reductions that will impact our cost structure during the second half of the fiscal year. In addition to normal continuous improvement programs, the Company has implemented additional operating efficiency initiatives and cost saving measures including reducing discretionary spending and restricting the hiring of new employees. However, we expect product development expenses for the third quarter of fiscal year 2007 to approximate those in the second quarter.

Our customers are uncertain with regards to their capital spending, consequently our visibility is limited. Based on current order activity, the Company expects sales for the third quarter of fiscal 2007, which will end June 30, 2007, to range between $31,000 and $38,000. Results will range from a pretax loss to pretax earnings in the single digits as a percentage of net sales. The Company expects the effective tax rate for the remainder of fiscal 2007 to be in the teens, although the rate will fluctuate based on actual results

Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS 133 Accounting for Derivative Instruments and Hedging Activities and SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 did not have a material impact on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, although early adoption is encouraged. The Company is currently evaluating the impact of this Interpretation on its financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require

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any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of this Statement on its financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108 regarding the process of quantifying financial statement misstatements. SAB No. 108 states that registrants should use both a balance sheet approach and an income statement approach when quantifying and evaluating the materiality of a misstatement. The interpretations in SAB No. 108 contain guidance on correcting errors under the dual approach as well as provide transition guidance for correcting errors. This interpretation does not change the requirements within SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB No. 20 and FASB Statement No. 3, for the correction of an error on financial statements. SAB No. 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The adoption of SAB No. 108 is not expected to have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 represents the completion of the first phase in the FASB s postretirement benefits accounting project and requires an employer that is a business entity and sponsors one or more single employer benefit plans to (1) recognize the over funded or under funded status of the benefit plan in its statement of financial position, (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs of credits that arise during the period but are not recognized as components of net periodic benefit cost, (3) measure defined benefit plan assets and obligations as of the end of the employer s fiscal year, and (4) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The provisions of SFAS No. 158 are effective as of September 30, 2007, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The impact of adopting SFAS No. 158 cannot be determined until the actuarial valuations are completed and the plan asset values are determined for the current year ending September 30, 2007. However, based upon the funded status of the Company s pension plans at September 30, 2006, the adoption of SFAS No. 158 would have reduced total stockholders equity by approximately $6,109 on a pretax basis at September 30, 2006. By the time we adopt SFAS No. 158 as of September 30, 2007, plan performance and actuarial assumptions could have a significant impact on the actual amounts recorded.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FAS 115. SFAS No. 159 allows companies to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements. It is effective for fiscal years beginning after November 15, 2007 and will be applied prospectively. The adoption of SFAS No. 159 is not expected to have a material impact on our consolidated financial statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to a variety of risks, including foreign currency fluctuations, interest rate fluctuations and changes in the market value of its short-term investments. In the normal course of business, we employ established policies and procedures to manage our exposure to fluctuations in foreign currency values and interest rates.

The Company is exposed to foreign currency exchange rate risk primarily through transactions denominated in foreign currencies. We currently utilize foreign exchange forward contracts or option contracts to sell foreign currencies to fix the exchange rates related to near-term sales and effectively fix our margins. Generally, these contracts have maturities of three months or less. Our policy is to only enter into derivative transactions when we have an identifiable exposure to risk, thus not creating additional foreign currency exchange rate risk. In our opinion, a 10 percent adverse change in foreign currency exchange rates would not have a material effect on these instruments and therefore our results of operations, financial position or cash flows.

The Company maintains a short-term investment portfolio consisting of United States government backed notes and bonds, corporate notes and bonds, and mutual funds consisting primarily of government notes and bonds. An increase in interest rates would decrease the value of certain of these investments. However, in management s

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opinion, a 10 percent increase in interest rates would not have a material impact on our results of operations, financial position or cash flows.

ITEM 4. Controls and Procedures.

The Company has evaluated, under the supervision and with the participation of the Company s Chief Executive Officer and Chief Financial Officer, the design and operation of the Company s disclosure controls and procedures as of March 31, 2007 pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities Exchange Commission s rules and forms, and that information was accumulated and communicated to the Company s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in the internal control over financial reporting that occurred during the second quarter of fiscal 2007 that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors.

Current and potential shareholders should consider the risk factors described below. Any of these or other factors, many of which are beyond our control, could negatively affect our revenue, results of operations and cash flow.

Cyclicality of the electronics industry and timing of large orders

Many of the industries we serve, including but not limited to the semiconductor industry, the wireless communications industry, and precision electronic components and subassemblies manufacturers, have historically been very cyclical and have experienced periodic downturns. The downturns have had, and may have in the future, a material adverse impact on our customers demand for equipment, including test and measurement equipment. The severity and length of a downturn also may affect overall access to capital, which could adversely affect the Company s customers. In addition, the factors leading to and the severity and length of a downturn are difficult to predict and there can be no assurance that we will appropriately anticipate changes in the underlying end markets we serve or that any increased levels of business activity will continue as a trend into the future. Our orders are cancelable by customers, and consequently, orders outstanding at the end of a reporting period may not result in realized sales in the future. Orders from our top 25 customers of the quarter can generally vary between 30-50 percent of our total orders for any given quarter. This can cause our financial results to fluctuate from quarter to quarter, which may have an adverse impact on our stock price.

Rapid technology changes

Our business relies on the development of new high technology products and services, including products incorporating RF and pulse capabilities, to provide solutions to our customers complex measurement needs. This requires anticipation of customers changing needs and emerging technology trends. We must make long-term investments and commit significant resources before knowing whether our expectations will eventually result in products that achieve market acceptance. We have increased our expenses for new product development; however, our new products may or may not result in significant sources of revenue and earnings in the future. If our new product development investments do not result in future earnings, our operating results could be adversely affected.

Competitive factors

We compete on the basis of product performance, customer service, product availability and price. There are many firms in the world engaged in the manufacture of electronic measurement instruments, and the test and measurement industry is highly competitive. Many of our competitors are larger and have greater financial resources, and/or have established significant reputations within the test and measurement industry and with the customer base we serve. If any of our competitors were to develop products or services that were more cost-effective or technically superior to ours, or if we were unable to differentiate our product offerings from those of our competitors, demand for our products could slow. Additionally, aggressive competition could cause downward pricing pressure, which would reduce our gross margins or cause us to lose market share. We also face competition for personnel with certain

highly technical specialties. If we were unable to hire or retain certain key employees, our business could be adversely affected.

Dependence on key suppliers

Our products contain large quantities of electronic components and subassemblies that in some cases are supplied through sole or limited source third-party suppliers. As a result, there can be no assurance that parts and supplies will be available in a timely manner and at reasonable prices. Additionally, our inventory is subject to risks of changes in market demand for particular products. Our inability to obtain critical parts and supplies or any resulting excess and/or obsolete inventory could have an adverse impact on our results of operations.

International operations, political and economic conditions

We currently have subsidiaries or sales offices located in 16 countries outside the United States, and non-U.S. sales accounted for nearly three-fourths of our revenue during the first half of fiscal 2007. Our future results could be adversely affected by several factors relating to our international sales operations, including fluctuating foreign currency exchange rates, political unrest, wars and acts of terrorism, changes in other economic or political conditions, trade protection measures, import or export licensing requirements, unexpected changes in regulatory requirements and natural disasters. Any of these factors could have a negative impact on our revenue and operating results.

Changes in manufacturing processes

We have implemented a lean manufacturing environment in our manufacturing facilities, which are located in Solon, Ohio. We may not experience future benefits from lean manufacturing if we are unable to continue to effectively fine-tune our operations, and we could incur additional costs in the future, having a negative impact on gross margin, if new initiatives are needed to further improve manufacturing efficiencies.

Tax planning strategies

We pay taxes in multiple jurisdictions throughout the world. We utilize available tax credits and other tax planning strategies in an effort to minimize our overall tax liability. Our estimated tax rate for fiscal 2007 could change from what is currently anticipated due to changes in tax laws in various countries, changes in our overall tax planning strategy, or changes in the mix of countries where earnings or losses are incurred. At December 31, 2006, we had a valuation allowance against certain deferred tax assets and had not established valuation allowances against other deferred tax assets based on tax strategies planned to mitigate the risk of impairment to these assets. Accordingly, if facts or financial results were to change thereby impacting the likelihood of realizing the deferred tax assets, our tax rate and therefore our earnings could be adversely affected.

Information technology management systems

Our IT systems are critical to our normal business operations, and we rely on them to provide adequate, accurate and timely financial information. Throughout the last three fiscal years, we have implemented new Enterprise Resource Planning, or ERP, and Customer Relationship Management, or CRM, systems, and we intend to further upgrade our information technology systems. We also have outsourced the hosting of these systems to a third-party vendor located in Texas. Our results could be adversely affected if we are unable to implement further system upgrades and enhancements without significant interruptions in accounting systems, order entry, billing, manufacturing and other customer support functions. If our third-party vendor experiences shuts downs or other service-related issues, it could interrupt our normal business processes including our ability to process orders, ship our products, bill and service our customers, and otherwise run our business, resulting in a material adverse effect on our revenue and operating results.

Fixed cost of sales force

We have continued to build our direct sales force throughout the world with our own employees rather than utilizing third-party sales representatives. This action increases our fixed costs, and our results could be adversely affected during times of depressed sales.

Planned cost savings initiatives

In March 2007, we began the implementation of operating cost reductions that will impact our cost structure during the second half of fiscal 2007. Our financial results could be negatively affected if we are unable to continue to effectively implement the planned cost savings over the remainder of the fiscal year. Additionally, our ability to grow our sales in the future could be negatively affected if our cost savings initiatives have an adverse effect on our ability to develop new products.

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Non-cash compensation expense

We currently grant non-cash compensation in the form of non-qualified stock options, performance share units and restricted share units. The final number of common shares to be issued pursuant to the performance share unit awards will be determined at the end of each three-year performance period. The awards issued in fiscal year 2006 can be adjusted in 50 percent increments and may range from a maximum of twice the initial award, as specified in the agreement, to a minimum of no units depending upon the level of attainment of performance thresholds. The awards issued in fiscal year 2007 are similar to those issued in 2006; however, they can only be adjusted in 25 percent increments. We currently are accruing expense for performance share unit awards based upon our estimate that the number of shares to be issued will be equal to the initial award amount. Our future earnings can fluctuate throughout the performance period specified in the agreements depending upon our estimate of the number of awards we expect will be issued upon the completion of the performance period.

Historical stock option grant practices

We have experienced substantial additional costs due to the previously announced independent investigation into our past stock option grant practices that was conducted by a Special Committee of our Board of Directors.

As disclosed under Legal Proceedings Stock Option Matters, in our 2006 Form 10-K, in August 2006 we established a Special Committee of our Board of Directors to investigate the Company s stock option practices since the beginning of the fiscal year ended September 30, 1995. In addition, we were notified in September 2006 that the staff of the SEC was conducting an informal inquiry into our stock option practices. The Company announced the special committee s findings on December 29, 2006, including that no restatement of the Company s historical financial statements would be required. There can be no assurance, however, that the staff of the SEC will not disagree with this position in the future and require a restatement. In addition, the SEC s informal inquiry continues.

Certain of the Company s Directors and current and former officers have been named as defendants in a consolidated shareholder derivative action filed in the United States District Court for the Northern District of Ohio captioned In Re Keithley Instruments, Inc. Derivative Litigation. The consolidated action seeks to uncover unspecified money damages, disgorgement of profits and benefits, equitable injunctive relief and other remedies. The Company is also named as a nominal defendant.

We are not able to predict the future outcome of the SEC inquiry and the derivative action. These matters could result in significant new expenses, diversion of management s attention from our business, commencement of formal similar, administrative or litigation actions against the Company or our current or former employees or Directors, significant fines or penalties, indemnity commitments to current and former officers and Directors and other material harm to our business. The SEC also may disagree with the manner in which we have accounted for and reported (or not reported) the financial impact of past option grants or other potential accounting errors, and there is a risk that its inquiry could lead to circumstances in which we may have to restate our prior financial statements, amend prior SEC filings or otherwise take actions not currently contemplated. Any such circumstance also could lead to future delays in filing of subsequent SEC reports.

Other risk factors

Our business could be affected by worldwide macroeconomic factors. The recent rise in energy prices, as well as rising interest rates, could have a negative impact on the overall economy which could impact our revenue and operating results. Other risk factors include, but are not limited to, changes in our customer and product mix affecting our gross margins, our ability to work with third parties to augment our product offering, credit risk of customers, potential litigation, claims, regulatory and administrative proceedings arising in the normal course of business, as well as terrorist activities and armed conflicts.

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

On February 12, 2007, the Company announced its Board of Directors had approved an open market stock repurchase program (the 2007 Program). Under the terms of the 2007 Program, the Company may purchase up to 2,000,000 Common Shares, which represents approximately 12 percent of its total outstanding Common Shares, through February 28, 2009. The 2007 Program replaces the prior repurchase program, which expired on December 31, 2006. The purpose of the 2007 and prior programs is and was to offset the dilutive effect of stock option and stock purchase plans, and to provide value to shareholders. Common Shares held in treasury may be reissued in settlement of stock purchases under these plans. The Company made no share repurchases during the first half of fiscal 2007 or 2006. See Notes to Condensed Consolidated Financial Statements Note F.

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

On February 10, 2007, the registrant conducted its Annual Meeting of Shareholders. The following matters were brought before the shareholders for vote at this meeting:

PROPOSAL	FOR	WITHHELD
(a) Election of Directors:		
Joseph P. Keithley	33,159,884	780,155
*Brian R. Bachman	7,380,420	5,074,599
James T. Bartlett	32,638,202	1,301,837
James B. Griswold	33,167,792	772,247
Leon J. Hendrix, Jr.	28,398,196	5,541,843
*Brian J. Jackman	6,979,746	5,475,273
*Dr. N. Mohan Reddy	11,159,370	1,295,649
Thomas A. Saponas	29,408,695	4,531,344
Barbara V. Scherer	28,889,694	5,050,345
R. Elton White	28,260,883	5,679,156

* Elected by holders of Common Shares only.

No other matters were brought before shareholders for a vote at the meeting.

Item 6. Exhibits.

(a) Exhibits. The following exhibits are filed herewith:

Exhibit Number	Exhibit
31(a)	Certification of Joseph P. Keithley pursuant to Rule 13a-14(a)-15d-14(a).
31(b)	Certification of Mark J. Plush pursuant to Rule 13a-14(a)-15d-14(a).
32(a)+	Certification of Joseph P. Keithley pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

32(b)+	Certification of Mark J. Plush pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

\+ The certifications furnished pursuant to this item will not be deemed filed for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

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SIGNATURES

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

KEITHLEY INSTRUMENTS, INC.
(Registrant)

Date: May 10, 2007 /s/ Joseph P. Keithley

Joseph P. Keithley
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2007 /s/ Mark J. Plush

Mark J. Plush
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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