



**IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE**

CHARLES MILLER, JESSIE LEW  
MAHONEY, and JANET ANN DENTON,  
on behalf of themselves and all other  
similarly situated stockholders of  
IAC/InterActiveCorp.,

Plaintiffs,

v.

C.A. No. \_\_\_\_\_

IAC/INTERACTIVECORP, BARRY  
DILLER, EDGAR BRONFMAN, JR.,  
MICHAEL EISNER, BONNIE HAMMER,  
BRYAN LOURD, ALAN SPOON,  
VICTOR KAUFMAN, CHELSEA  
CLINTON, ALEXANDER VON  
FURSTENBERG, JOSEPH LEVIN,  
DAVID ROSENBLATT, and RICHARD  
F. ZANNINO,

Defendants.

**VERIFIED CLASS ACTION COMPLAINT**

Plaintiffs Charles Miller, Jessie Lew Mahoney, and Janet Ann Denton (collectively, "Plaintiffs"), on behalf of themselves and all others similarly situated, by and through their undersigned attorneys, bring this Verified Complaint against IAC/InterActiveCorp ("IAC" or the "Company") and the members of its board of directors (the "Board"). Plaintiffs allege the following upon personal knowledge as to themselves and their own actions, and upon information and belief as to all other matters, including the investigation conducted by counsel, which

included, among other things, a review of documents filed with the Securities and Exchange Commission (“SEC”), including the Company’s Schedule 14A, filed on November 7, 2016 (the “Proxy”), news reports, press releases, and other publicly available documents.

### **SUMMARY OF THE ACTION**

1. This case arises out of a disloyal scheme by IAC’s controlling stockholder, Barry Diller (“Diller”), to create a new, non-voting class of stock for the express purpose of maintaining the Diller family’s voting control. IAC has an extreme separation of ownership and control. Diller, his family, and their trusts (together, the “Diller Parties”) own less than 8% of IAC’s outstanding stock, but wield 44% of the Company’s voting power through supervoting Class B shares. Diller exercises further control as Chairman and Senior Executive, for which he is regularly listed as one of the highest paid executives in the country. He is 74 years old, and he is now improperly using his control to perpetuate himself in power for the remainder of his life, and then pass control to family members who have never run IAC.

2. If his scheme succeeds, the Board will have ceded all of its power to the Diller family, retaining no ability to regain influence, even if this new corporate structure proves calamitous. It is no surprise that the Board and Diller have refused to provide any vote on this proposal to IAC’s public stockholders. They

know the public shareholders would not readily approve a permanent shift in power to Diller and his family members.

3. The entrenchment scheme began in April 2016, when Diller asked the Board to approve a radical alteration of the long-standing relationship among common stock shares (which have one vote each, and are mainly held by the public) (“Common Stock”), and the Diller family’s Class B common stock shares (which have 10 votes each) (“Class B Stock”). IAC’s Board was asked to: (i) approve an amendment to IAC’s certificate of incorporation to create non-voting Class C stock (“Class C Stock”), and then (ii) dividend one share of non-voting Class C Stock for each share of Common Stock and Class B Stock (the “Proposed Reclassification”). The Proxy concedes that the Proposed Reclassification will “provide IAC with a mechanism to issue common equity securities in the future for acquisitions and equity awards *without diluting* the voting power of the IAC common stock and the Class B common stock.” (Emphasis added).

4. The Proposed Reclassification is subject to the stringent entire fairness standard. The Diller Parties control IAC, stand on both sides of the Class C Stock issuance, and uniquely benefit. The transaction is highly suspect under our law, and it is being carried out in a coercive manner. All benefits flow to the Diller Parties, while all detriments fall on the shoulders of the public stockholders.

5. No independent body was empowered to protect the public stockholders. According to the Proxy, Diller did not condition his proposal on approval by a special committee of independent directors or on a majority vote of unaffiliated stockholders. Instead, the board formed a “Special Committee” comprised of a majority of directors with financial relationships and/or longstanding friendships with Diller.

6. Furthermore, Diller coerced the Special Committee. In June 2016, he advised the Special Committee that issuance of the Class C Stock was the only way to “remove a potential inhibition on [Diller’s part to] the use of common equity of IAC for acquisitions.” In other words, Diller threatened to harm IAC by blocking acquisitions that would dilute his voting and managerial power. Diller accentuated his threat by reminding the Special Committee that Diller and IAC had not approved equity issuances for acquisitions in “the recent past.” The message was clear: Diller would approve value-enhancing acquisitions only if the board issued Class C Stock that cemented his control. Diller’s threat is the only reason provided in the Proxy for the Special Committee’s decision to accede to Diller’s proposal.

7. The primary motivation for the Proposed Reclassification is to protect Diller and his family from dilution. Diller’s stepson and heir apparent, Alexander von Furstenberg (“Alexander”), is 46 years old. In the ordinary course, IAC would

undertake multiple acquisitions under Diller's or Alexander's tenure, which would dilute their voting power and, over time, transfer control to the public stockholders. The Proposed Reclassification arrests that voting power dilution.

8. The Proxy does not explain the merits of cementing the Diller Parties' control. Given Diller's age, the Board of Directors should consider an appropriate succession plan. Alexander has little to no operating experience, and no other Diller family member has a proven track record of success. According to the Proxy, the Special Committee did not discuss the benefits or detriments of creating a mechanism of dynastic control. Creating such a mechanism is the antithesis of the Board's responsibility to the public stockholders.

9. If Diller was determined to transfer control to family members, then he should pay for that privilege. Yet, Diller did not offer to make any such payment, and the Special Committee never asked him to do so.

10. The Proxy concedes that "issuances of Class C common stock may ultimately be more economically dilutive to all of our stockholders than issuances of IAC common stock." Precedents of other companies with a dual-class common stock structure that have issued a class of non-voting shares suggest that wide trading disparities will arise between the single-vote Common Stock and the no-vote Class C shares. The Special Committee did not bargain for any payment by

Diller to the unaffiliated stockholders to make up for the economic harm they are likely to suffer.

11. The Special Committee failed to obtain other appropriate protections for the unaffiliated stockholders. Diller refused a requested “sunset provision” that would reduce the Class B Stock’s voting power upon his death or permanent disability. The Special Committee did not insist that a majority of the unaffiliated stockholders vote to approve the Proposed Reclassification. The Special Committee allowed Diller to transfer Class C Stock to other Diller Parties. The Special Committee did not obtain a fairness opinion, or otherwise value the benefits Diller received or the resulting costs to the unaffiliated stockholders. The Special Committee also failed to obtain an unwaivable and irrevocable commitment that the Diller Parties would relinquish a future control premium in return for the perpetuation of their dynastic control.

12. Instead, the conflicted Special Committee acceded to Diller’s threats. The Diller Parties’ approval of the Class C Stock issuance is self-dealing, coercive, and not entirely fair.

## **PARTIES**

### **A. Plaintiffs**

13. Plaintiff Charles Miller is, and at all relevant times has been, a holder of IAC common stock.

14. Plaintiff Jessie Lew Mahoney is, and at all relevant times has been, a holder of IAC common stock.

15. Plaintiff Janet Ann Denton is, and at all relevant times has been, a holder of IAC common stock.

**B. Defendants**

16. Defendant IAC/InterActiveCorp (“IAC” or the “Company”) is a Delaware corporation that maintains its corporate headquarters in New York, New York. It is being named herein so that complete relief can be granted.

17. Defendant Barry Diller (“Diller”) has been the Chairman of the Board and Senior Executive of IAC since December 2010. Diller previously served as a Chairman and Chief Executive Officer of IAC (and its predecessors) from August 1995 to November 2010. Through his beneficial ownership of IAC Class B stock, Diller has control over 44.2% of the Company’s voting shares, but only 7.5% of its economic equity interests.

18. Defendant Alexander von Furstenberg (“Alexander”) has been a director of the Company since December 2008. Alexander is the stepson of Diller, and is a beneficiary of Diller’s estate planning and stands to benefit from the Diller Parties’ perpetual control of IAC.

19. Defendant Victor Kaufman (“Kaufman”) has been a director of the Company (and its predecessors) since December 1996. Kaufman has worked for

Diller in various roles for at least twenty years, and has been Vice Chairman of IAC (and its predecessors) since October 1999. Unlike any of the outside directors, Kaufman has operational responsibilities, and works directly for Diller in the Office of the Chairman. The Proxy explains that Kaufman is an “executive officer of the company,” and IAC concedes that he is a non-independent management representative on the Board.

20. Defendant Joseph Levin (“Levin”) has been a director and Chief Executive Officer of the Company since June 2015. Levin has been employed by IAC since 2003. Levin is a non-independent management representative on the Board.

21. Defendant Edgar Bronfman, Jr. (“Bronfman”) has served as a director of the Company (and its predecessors) since February 1998. Bronfman is a member of the Special Committee. As explained below, Bronfman and Diller have a long-term business relationship, and have been close friends for at least forty-two years.

22. Defendant Chelsea Clinton (“Clinton”) has been a director of the Company since September 2011. Clinton is a member of the Special Committee. As explained below, Diller has deep personal ties to the Clintons, including being a long-time booster and supporter of Clinton’s mother, Hillary Clinton, raising



enormous sums of money for her political campaigns and the Clinton Foundation, and vacationing with Defendant Clinton.

23. Defendant Michael Eisner (“Eisner”) has been a director of the Company since March 2011. Eisner is a member of the Special Committee. As explained below, Eisner has been close friends with Diller for 50 years and was his protégé.

24. Defendant Bonnie Hammer (“Hammer”) has been a director of the Company since September 2014. Hammer is a member of the Special Committee. As explained below, Diller served as a mentor to Hammer for nearly twenty years.

25. Defendant Bryan Lourd (“Lourd”) has been a director of the Company since April 2005. Lourd is a member of the Special Committee. He is a close friend of Diller’s, and their families are very close. Among other things, Lourd and his husband hosted Diller’s wife’s celebration dinner for her memoir’s publication, and Diller’s wife invited Lourd to sit front row at her show during New York’s fashion week. The families have vacationed together, including a vacation on Diller’s mega-yacht in the Caribbean the week before the Special Committee was formed.

26. Defendant Richard F. Zannino (“Zannino”) has been a director of the Company since June 2009. Zannino is a member of the Special Committee.

Zannino was formerly associated with Dow Jones Co., where he had a commercial relationship with Diller.

27. Defendant David Rosenblatt (“Rosenblatt”) has been a director of the Company since December 2008. Rosenblatt is a member of the Special Committee.

28. Defendant Alan Spoon (“Spoon”) has been a director of the Company and its predecessors since February 2003. Spoon is a member of the Special Committee.

29. Defendants Diller, Bronfman, Clinton, Eisner, Hammer, Levin, Lourd, Spoon, Kaufman, von Furstenberg, Rosenblatt, and Zannino are collectively referred to herein as the “Director Defendants” or the “Board.”

30. Defendants Bronfman, Clinton, Eisner, Hammer, Lourd, Rosenblatt, Spoon, and Zannino are collectively referred to herein as the “Special Committee.”

## **SUBSTANTIVE ALLEGATIONS**

### **A. IAC’s Business**

31. IAC is the current incarnation of a hybrid media/electronic retailing company incorporated in 1986 in Delaware under the name Silver King Broadcasting Company, Inc. After several name changes (first to HSN, Inc., then to USA Networks, Inc., USA Interactive and InterActiveCorp, and finally, to IAC/InterActiveCorp) and the completion of a number of significant corporate

transactions and reorganizations over the years, the Company transformed itself into a leading media and Internet company.

32. IAC has built its business primarily by acquiring leading brands and products, such as HomeAdvisor, Vimeo, About.com, Dictionary.com, The Daily Beast, Investopedia, and Match Group's online dating portfolio, which includes Match, OkCupid, Tinder and PlentyOfFish. It has aggressively pursued mergers and acquisitions, which have been the cornerstone of the Company's growth.

### **B. IAC's Capital Structure**

33. The Company currently has two classes of stock: Common Stock (which is entitled to one vote per share) and Class B Stock (which is entitled to ten votes per share and which is convertible into Common Stock on a share for share basis). As of October 27, 2016, there were 73,570,302 shares of Common Stock outstanding and 5,789,499 shares of Class B Stock outstanding. The Common Stock and the Class B Stock have identical economic rights. The two classes vote together on all matters except as required by law and except that the Common Stock has the separate right to elect 25% of the members of the Board.

34. In 1995, Diller obtained control of IAC's predecessor in a deal backed by John Malone's Liberty Media Corporation and Liberty USA Holdings, LLC (the "Liberty Parties"). The Liberty Parties had voting control over the Company and the right to acquire a majority of its equity, but transferred its voting control to

Diller, who owned only 20% of the equity. The Liberty Parties were willing to transfer such control to Diller because federal regulations prevented them from exercising control due to their other media businesses.

35. In 2008, the Liberty Parties and Diller began to have substantial disagreements about IAC's plan to split into five separate companies, and IAC filed a lawsuit in defense of the plan. By December 2010, Liberty decided to exit its investment in IAC in a complicated share and asset transfer. First, pursuant to a pre-existing stockholders agreement between Diller and the Liberty Parties, Diller exchanged 4.3 million IAC common shares for an equal number of Class B shares owned by the Liberty Parties. Diller paid no additional consideration for obtaining control from Liberty. Then, the Liberty Parties exited their IAC investment, and exchanged all of their shares in IAC for all of the capital stock of an IAC subsidiary that owned Evite and Gifts.com plus \$218 million in cash from IAC (collectively with the exchange between Diller and the Liberty Parties, the "Liberty Exchange").

36. Immediately following the Liberty Exchange, Diller controlled 34% of the voting power of IAC, and received an option to exchange 1.5 million common shares for an equal number of Class B shares held in the Company's treasury. (Diller eventually exercised that option in full in 2011, resulting in his ownership of 41% of the Company's voting power.)

37. In connection with the Liberty Exchange, Diller stepped down as CEO. Moreover, even though he only owned 34% of the Company's voting power immediately following the Liberty Exchange, Diller admitted that he controlled the Company, and wanted his family to maintain that control over the long-term. Specifically, in response to a question asking whether the Liberty Exchange meant he would step back from the Company, Diller responded (with emphasis added): "That's ridiculous because *now I have direct control over the company*. If anything I'm stepping closer. *Frankly my family and I want to be in this for the long term . . . .*"

38. The Liberty Exchange represented the first time Diller used his control over IAC's corporate machinery and assets to cement his control over the Company. Now, Diller is attempting to use the Proposed Reclassification as a means to cement his family's control over IAC in perpetuity.

39. As of October 27, 2016, the Diller Parties owned all 5,789,499 shares of Class B Stock, entitling them to 57,894,990 votes, and 136,711 shares of Common Stock. Diller and his family's stock ownership represents 44.2% of the Company's voting power, but only 7.5% of the Company's equity. Diller admits that this voting power gives the Diller Parties control over IAC. As described in the Company's Form 10-K Annual Report filed with the SEC on February 29, 2016, as a result of Diller and his family's share ownership, they "are able to

exercise significant influence over the composition of [the Company's] Board of Directors, matters subject to stockholder approval and the [Company's] operations.” As the 10-K states:

As a result of Mr. Diller's sole investment power over the IAC securities in the 2016 GRATs, Ms. von Furstenberg's sole voting power over the IAC securities in the 2016 GRATs, Mr. von Furstenberg's sole voting and sole investment power over the IAC securities in the 2016 Family Trust and Mr. Diller's contractual rights described above, Mr. Diller and his family are, collectively, currently in a position to influence, subject to our organizational documents and Delaware law, the composition of IAC's Board of Directors and the outcome of corporate actions requiring stockholder approval, such as mergers, business combinations and dispositions of assets, among other corporate transactions. In addition, this concentration of investment and voting power could discourage others from initiating a potential merger, takeover or other change of control transaction that may otherwise be beneficial to IAC, which could adversely affect the market price of IAC securities.

40. As the Proxy adds, Diller stated his view at an April 6, 2016 special meeting of the Board that: “investors have always understood control [of IAC] rests and can be transferred in perpetuity by Mr. Diller and his family members[.]”

41. While Diller correctly states that he is currently a controller, public stockholders never conceded nor consented to the Diller family maintaining its position in perpetuity by altering IAC's governing documents. To the contrary, public investors understood that the Diller Parties could eventually be diluted through the issuance of Common Stock for acquisitions and employee compensation.

**C. IAC Uses Cash and Debt to Buy Back Stock, Increasing Diller's Control**

42. In recent years, the Board has caused the Company to engage in numerous stock buybacks that have further solidified Diller's voting control over the Company. According to the Company's annual proxy statements, since 2011, the Board has caused the Company to repurchase \$1.663 billion of Common Stock. The Company's long-term debt has significantly increased to finance its stock buybacks, rising from \$96 million in Diller's last quarter as CEO in 2010, to over \$1 billion by 2015. The long-term debt is even higher now. These buybacks show the Board's willingness to approve transactions with the effect of entrenching Diller's control. As of April 2011, there were 85,439,921 shares of Common Stock outstanding, and that number has been reduced to 74,121,468, which directly benefited Diller by increasing his percentage ownership.

43. Diller's and the Board's use of IAC cash and new debt to consolidate Diller's control by reducing the share count led to Diller-imposed constraints on IAC's ability to use stock to grow its own value. The Proposed Reclassification is a "solution" to a problem created by Diller himself and his hand-picked Board.

44. Over the past few years, IAC has signaled to investors its plan to acquire additional business units and assets. In December 2015, Diller announced the creation of IAC Publishing, a unit that wrapped together the Company's existing properties—the Daily Beast, About.com, Dictionary.com and

Investopedia—into a single operating group. Doug Leeds, IAC Publishing’s CEO, noted that adding to the group through acquisitions “is 100% part of the strategy.” IAC’s public stockholders had a reasonable expectation that this strategy would further dilute Diller’s voting control. Stockholders justifiably understood that if Diller desired to increase his voting control over the corporation, he would have to buy more shares. To avoid this eventual dilution of voting control, Diller designed a plan that would allow the Company to continue to pursue acquisitions without diluting his family’s control. The proposed triple class structure is contrary to the corporate structure under which all parties have been proceeding for a long time.

45. Prior to receiving the Proxy, the public stockholders were never told that Diller would attempt to seize upon the Company’s depleted cash position – a condition Diller created – as a justification for reclassifying IAC’s capital structure. The stockholders were never given any reason to believe that the extant dual-class structure was inadequate for legitimate corporate purposes.

46. The timing of the Proposed Reclassification is highly suspect. The Proxy concedes that “substantial issuances of IAC common stock would be required to dilute the voting power of the Diller Parties to a level at which the Diller Parties might no longer exercise significant control.” There was no imminent deal that required the immediate issuance of shares. Nor is there an impending flood of employee equity grants on the horizon. Likewise, Diller’s



sudden demand to issue non-voting stock due to a cash shortfall is inconsistent with IAC's recent history of using its cash to engage in massive stock buybacks, totaling approximately \$1.6 billion, which have also served to increase Diller's proportionate voting control. It is now apparent that Diller caused IAC cash to be used to buy back stock to increase his voting control, and is now attempting to coerce the Board into providing him and his family with perpetual control.

47. Having traded up from being a holder of Common Stock with direct ownership of less than 1% of the vote to IAC's controlling stockholder and obtaining an option to acquire another 1.5 million shares of supervoting Class B stock, all for no payment, and then using that option and IAC's balance sheet (including an amount of leverage that is now harmful to IAC's business) to increase his voting percentage from 34.9% to 44.4%, Diller is effectively demanding that the Board declare that his family's voting percentage become fixed for all time.

**D. Diller's Contemporaneous Estate Planning Provides The Diller Parties With An Additional Potential Benefit**

48. Diller's request that the Board approve the Proposed Reclassification coincides with steps he took respecting his estate planning. The Proxy only mentions in passing that, approximately a month before Diller made the proposal, "in connection with the long-term estate planning of Diller and his family, Diller transferred an aggregate of 136,711 shares of Common Stock and 5,248,598 shares

of Class B Stock to two grantor retained annuity trusts, over which Diller has sole investment power and Diller's spouse, Diane von Furstenberg, has sole voting power." No further details were provided.

49. GRATs provide a vehicle to transfer wealth while avoiding gift and estate taxes. The GRATs here are designed to return all of the Class B Stock to Diller personally within two years, and any increase in the value of the Class B Stock (the so-called "remainder") will pass largely tax free to other Diller Parties via trusts established for their benefit. Diller's transfer of Class B Stock to the 2016 GRATs on February 22, 2016, was well-timed. The creation of the GRATs coincided with a large stock drop. At the time of the transfer, Common Stock traded at \$45.22 – near the 52-week low of \$38.82, and well below the intraday high of \$84.66 on July 14, 2015. Diller transferred the stock into the 2016 GRATs roughly one week after Common Stock hit its 52-week low. IAC's stock price has increased by approximately 50% since Diller contributed the Common Stock and Class B Stock to the 2016 GRATs, reaching \$65.93 as of November 15, 2016. This means that the 2016 GRATs have likely appreciated over 45%.

50. The new Class C Stock therefore not only serves to prevent the natural dilution of voting power that would result from equity grants or acquisitions. The Class C Stock could provide Diller with a form of currency to transfer appreciation of the assets in the GRATs to his beneficiaries without any need to transfer, while

he is alive, what might be a large portion of Diller's Class B Stock, or to dip into his pocket and use cash.

51. If the GRATs contain both Class B Stock and Class C Stock, Diller can use his "sole investment power" over them (as detailed in a Feb. 24, 2016 Schedule 13D/A) to transfer all Class B Stock in the GRATs back to himself, while leaving Class C Stock in the trust, to be distributed to remote trusts (the "Shadow Trusts") at the end of the two-year GRATs period. This process is illustrated below (using round numbers for the sake of convenience):

Event 1: Diller contributes Class B Stock worth \$200 million to the GRATs.

Event 2: The GRATs receives Class C Stock through the Proposed Recapitalization, which results in an equal number of Class B Stock and Class C Stock.

Event 3: The value of the shares in the GRAT appreciates to \$300 million in value (a roughly 50% increase from original value).

Event 4: Diller, by the terms of the GRATs must take back half of the original \$200 million in value in February 2017, which he takes back in the form of Class B Stock.

Event 5: Diller, by the terms of the GRATs must take back the second and final half of the original \$200 million in value in February

2018, which he takes back in Class B Stock, leaving the GRATs with Class C Stock (and no Class B Stock or a fraction of the Class B Stock owned by Diller).

Event 6: The Class C Stock might then be transferred to the Shadow Trusts, while Diller maintains control.

52. The formation of the GRATs on the very cusp of Diller's proposal suggests that there is a further, undisclosed motive for the Proposed Recapitalization—Diller's desire to realize the tax benefits of the GRATs, while obtaining Class C Stock as a currency to avoid transferring his valuable Class B Stock to the Shadow Trusts. While the monetary value of this maneuver to Diller and his future heirs is potentially very large, it should not come at the cost of upending the corporate structure to the detriment of the public stockholders and without their consent.

53. This self-dealing arrangement and its timing undermine the entire fairness of the Proposal, and call into question the information provided to and considered by the Special Committee and IAC stockholders. The Proxy reveals no exploration of the consequences of Diller's estate planning interests, and no attempt to value the benefits flowing to Diller and his family members from these tax maneuvers.

## **E. “IAC Management” Makes the Proposal**

54. Diller called a special meeting of the board for April 6, 2016, and made the proposal to create Class C Stock. The Proxy describes the proposal as being made by Diller, not in his capacity as a stockholder, but in his capacity as a member of “IAC management.” Diller was clear that the purpose of the Proposed Reclassification is to preserve his control by “provid[ing] IAC with a mechanism to issue common equity securities in the future for acquisitions and equity awards without diluting the voting power of the holders of the IAC common stock and the Class B common stock.”

55. Although the Proxy admits that there might be “other things” that the Proposed Reclassification would provide, it never explains what those “other things” are. It likewise states that there would be “ancillary benefits to Mr. Diller,” which are also not explained.

56. What is clear is that the claimed “purpose of the non-voting stock would be to provide flexibility to IAC and management,” while maintaining the current “capital structure” – *i.e.*, the “control [that] rests and can be transferred in perpetuity by Mr. Diller and his family.” When Diller made his proposal, he did not offer any payment to the unaffiliated stockholders in return, and did not condition the Board’s approval on the recommendation of a fully-independent

Special Committee with the power to say no definitively, or a majority vote of the unaffiliated stockholders.

**F. The Conflicted Board Forms a Conflicted Special Committee**

57. The IAC Board formed an *ad hoc* Special Committee, which includes several directors with longstanding friendships and business associations with the Diller Parties. The Board has twelve members, and the Company deems four of IAC's director not to be independent. Diller and Alexander are family members, and stand to benefit directly from the Proposed Reclassification. Levin is IAC's CEO. Kaufman has worked for Diller for at least twenty years, and is currently an executive Vice Chairman that reports to Diller.

58. The entire remaining balance of the board make up the Special Committee: Defendants Bronfman, Jr., Clinton, Eisner, Hammer, Lourd, Rosenblatt, Spoon, and Zannino. Of these eight members at least half are not independent from Diller. Therefore, neither a majority of the Board *nor* the Special Committee qualifies as an independent bargaining agent.

59. **Eisner**: In Eisner's own words, he and Diller have been friends for "decades and decades and decades." Diller has long-viewed Eisner as his protégé. Eisner is a member of what the media dubs "The Killer Dillers" – people whom Diller mentored and who later became big-time media executives in their own right. Eisner worked for Diller for sixteen years. Eisner and Diller's friendship

started in 1966, when Diller hired Eisner at the American Broadcasting Company, where Eisner served as Assistant to the National Programming Director and ultimately senior vice president in charge of programming and development. In an interview that Eisner conducted of Diller's wife, Diane von Furstenberg, Eisner recounted that he and Diller "idol[ized]" her, and concluded by saying: "I-- I appreciate you coming here and-- I can't believe-- I can-- actually can't believe from 1980-- 74 or 73, to 2007 we've ended up at this table. It's-- really fun and-- thank you for coming. DIANE VON FURSTENBERG: Oh, Michael, thank you! I love you!" In 1976, Diller, who had moved on to become chairman of Paramount Pictures, recruited Eisner from ABC and made him president and CEO of Paramount Pictures movie studio. More recently, Eisner has been photographed sitting front row at Diane von Furstenberg's fashion shows. Just two months ago, on September 9, 2016, when the Special Committee was supposed to be negotiating with Diller, Eisner co-chaired a \$100,000 a couple fundraiser for Hillary Clinton with Diller and Diane von Furstenberg.

60. **Clinton**: Diller was invited to attend Clinton's wedding. Diller and Clinton also vacation together. In 2015, Clinton and her husband were

photographed snorkeling with Diller and Diane von Furstenberg on Diller's yacht in Sardinia, Italy.<sup>1</sup>

61. Diller has been close to the Clinton family for many years and has supported their political aspirations. In a 2010 email between Melanne Verveer, a close deputy of Clinton, and Hillary Clinton, Ms. Verveer relayed details of an event being held by Diller and Diane von Furstenberg. Verveer suggested that Hillary Clinton accept an award and speaking invitation offered from the Diller-von Furstenberg Family Foundation, noting that "I have no doubt you would be very warmly embraced and [Diane] and Barry are so fond of you." The following year, the foundation awarded Hillary Clinton a "lifetime leadership award."

62. Prior to and during Hillary Clinton's campaign, the Diller family provided at least \$80,000 to Clinton causes, according to the *Washington Post*. In April 2016, at the Seventh Annual Diller-von Furstenberg Family Foundation Awards, the foundation again saluted Hillary Clinton. As noted on the foundation's website, Diane von Furstenberg asked attendees to "[p]lease spread the word. We want [Hillary Clinton] as our president."

63. More recently, in September 2016, Diller and Diane von Furstenberg held a private fundraiser at their home for Hillary Clinton's campaign. The Diller-

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<sup>1</sup> See <http://www.dailymail.co.uk/news/article-3201682/Chelsea-Clinton-enjoys-snorkeling-trip-Sardinia-husband-Mark-friends-mother-fights-growing-questions-emails-home.html>.



von Furstenberg dinner, which was co-chaired by Special Committee Defendant Eisner, was billed as “Conversations and Dinner with Hillary Clinton.” Attendees paid \$100,000 per couple with proceeds to the Hillary Victory Fund, a joint fundraising committee of Hillary Clinton’s campaign and state and national Democratic party committees. Meanwhile, Defendant Clinton was supposed to be negotiating against Diller respecting the Proposed Reclassification.

64. Clinton’s appointment to the Board in 2011, when she was still a graduate student, was controversial. Professor Steven Davidoff Solomon panned the appointment in *The New York Times’ Dealbook* column, writing:

But let’s be real. Ms. Clinton has this position only because she is the daughter of former President Bill Clinton and Hillary Rodham Clinton, the current secretary of state. This is clearly an appointment made because of who she is, not what she has done, one that defies American conceptions of meritocracy. Even most celebrity directors earn their way to such celebrity — sort of.

65. Writing with tremendous foresight in light of the Special Committee’s failure to push back against Diller’s demands, Professor Davidoff Solomon continued:

Too many boards, including those of Yahoo and Hewlett-Packard, have gotten into hot water for failing to act forcefully and to exercise their duties to run the company. Will a celebrity — even a smart, well-regarded one like Ms. Clinton — ask the hard questions we want a director to ask?

The particular company matters. IAC gets low marks on corporate governance from GovernanceMetrics International, a research and rating firm. A representative of the company recently wrote that IAC

was rated poorly for “governance concerns including dual share classes with disparate voting rights, a board containing many overcommitted and nonindependent directors, and executive compensation that is not well aligned with company performance.”

IAC’s board is filled with high-powered friends of Mr. Diller, including Michael D. Eisner, Edgar Bronfman Jr. and Mr. Diller’s stepson. The celebrity bug appears contagious on this board. When Mr. Eisner served as chief of Disney, his board was also criticized for being filled with lightweights, celebrities and cronies, among them Mr. Poitier.

GovernanceMetrics also asserts that IAC’s executive compensation does not conform with best practices. Mr. Diller, who controls the company, serves only as board chairman, but he was paid about \$3.7 million last year, while the new chief executive, Gregory R. Blatt, was paid about \$18.6 million. For IAC, a midsize company with a market capitalization of \$3.4 billion, this is a rather hefty payout....

The real question is whether Ms. Clinton can act independently and provide value to the IAC board.

66. Defendant Clinton could not act as an effective bargaining agent against Diller. She would be negotiating against a close friend who was a major contributor to the Clinton family during the middle of her mother’s presidential campaign.

67. **Bronfman**: Bronfman and Diller have a long-term business relationship and have been friends for decades. In 1997, when Bronfman was heir to Seagram Company, Seagram sold a majority interest in its television and cable assets to Diller – retaining a minority interest. Because Bronfman understood that his company would have to invest a huge amount of capital into Seagram’s cable

operation if he wanted to compete with Time Warner or Viacom, Bronfman enlisted Diller as a partner. Pundits lambasted Bronfman for giving up control in exchange for a minority stake. As *The Daily Beast* reported, “the deal for Bronfman wasn’t about money – it was about gaining access to Diller’s operational acumen to grow what was then a weak collection of cable networks.” Bronfman is not independent.

68. **Hammer**: Hammer’s relationship with Diller dates back to 1997 when she was at USA Network, and Diller purchased the company from Seagram’s Bronfman. According to *The New York Times*, Hammer considers Diller a mentor. *Newsweek* reported that she described her time working for Diller at USA Network as “a formative experience.” She also has an ongoing business relationship with Diane von Furstenberg, whom Hammer hired to star in a television show on E!. Given her close relationship with Diller for the past 20 years and her ongoing business relationship with Diane von Furstenberg, Hammer is not independent.

69. **Lourd**: Lourd’s family and Diller’s family are very close, and Lourd is not independent. For instance, Lourd and his husband, Bruce Bozzi, hosted the private celebration of Diane von Furstenberg’s memoir, “The Woman I Wanted to Be.” Lourd was invited to Diane von Furstenberg’s exhibit at the Los Angeles County Museum of Art in January 2014, and was invited to take a front row seat at Diane von Furstenberg’s fashion show at New York Fashion Week later that year.

Diller also flew from Los Angeles to attend an event honoring Lourd at Lincoln Center. In a 2015 interview, Lourd’s husband described their spending Oscar weekend having lunch with Diller and Diane von Furstenberg on Saturday and then “Sunday evening we broke with tradition and headed back over to the wonderful home of DVF & BD’s to enjoy one more delicious meal and watch the show.” Lourd took a vacation in the Caribbean with Diller on Diller’s 300-foot mega-yacht Eos the week before the Special Committee was formed. Diller is fourth from left, and Lourd is first on the right:



70. In short, the Special Committee was incapable of acting as a reliable negotiator with Diller, and did not have the ability to say “no” definitively. IAC does not have an independent board.

71. The Special Committee’s legal advisor, Fried, Frank, Harris, Shriver & Jacobson LLP (“Fried Frank”), was also tainted. The Proxy states that Fried Frank had performed “certain prior legal work . . . for Mr. Diller’s not-for-profit-corporation.” That statement is, at best, misleading and materially incomplete. Two days after the Special Committee was formed and less than two weeks before being retained by the committee, Fried Frank issued a marketing release that remains on its website under “Major Matters,” touting its “significant litigation victory” representing Pier 55, Inc., Diller and Diane von Furstenberg’s non-profit that is being sued to stop the Hudson River Park that Diller paid to build. Even recently, Fried Frank was named as a benefactor to the Hudson River Park’s annual gala, which took place in October 2016. It appears that Fried Frank never withdrew its representation of Pier 55, Inc. before it was retained to represent the Special Committee.

72. The Special Committee retained Greenhill & Co., LLC (“Greenhill”) as a financial advisor and agreed to pay it fees of up to \$2 million. It is unclear what fee Greenhill was actually paid and on what terms, or what Greenhill did to

earn such a fee, as it has not provided any fairness opinion on the Proposed Reclassification.

### **G. Diller Coerces and Threatens the Special Committee**

73. Although the Special Committee recognized some of the negative consequences the unaffiliated stockholders would suffer from the Proposed Reclassification, it was operating under a threat from Diller. At its June 23, 2016 meeting, Diller expressed “his view that the Class C Issuance ... would remove a potential inhibition [on his part] on the use of common equity of IAC for acquisitions.” In other words, Diller told the Special Committee to give him the Proposed Reclassification or else he would likely prevent IAC from engaging in accretive transactions.

74. The Proxy makes clear that Diller’s threat influenced the Special Committee. In the section of the Proxy explaining the Board’s reasons for recommending that stockholders approve the Proposed Reclassification, the directors explained (with emphasis added):

*The Special Committee and the Board considered that potential dilution of the voting power of the Class B common stock might serve as an inhibition on the willingness of Mr. Diller to pursue acquisitions that require the use of equity as consideration, and viewed this potential inhibition as a meaningful factor in light of IAC's historic record of creating value through acquisitions, the desirability of IAC continuing to pursue acquisitions to grow stockholder value, and IAC's current net cash position and balance sheet flexibility.*

75. The concern that Diller would refuse to approve beneficial and value-enhancing transactions undermined what bargaining power the Special Committee had. The Proxy states that Diller had already “inhibited” the use of IAC common stock for acquisitions (with emphasis added): “[I]n the absence of the Class C Issuance and the Dividend, IAC could *continue to be inhibited* in the use of common equity for acquisitions, given the potential voting dilution and the possible resistance of the Diller Parties to voting dilution.”

76. Over the course of the next six months, the Special Committee engaged in tepid discussions with Diller, but never got Diller to agree to meaningful conditions that would truly protect the public stockholders or compensate them for the harms associated with the Proposed Reclassification. True protection of public stockholders in a situation where a controlling stockholder makes an express or implied threat means that the transaction at issue should, at the very least, be subject to approval by a majority of the unaffiliated stockholders with a commitment that the controlling stockholder will not end-run that vote. The Special Committee initially proposed such a condition; however, Diller quickly refused to agree, and the Special Committee put up no resistance. The logical conclusion from Diller’s refusal to let IAC’s public stockholders decide whether the Proposed Reclassification is in their best interests is that he

knew they would reject the proposed reclassification because it is not in their best interests.

77. The Special Committee also failed to get Diller to pay for perpetual control or to agree to a “Sunset Provision” that would limit the length of time Diller and his family could control IAC through the super-voting Class B Stock (or link control in any way to performance). In fact, the Special Committee left the Board with no ability to unwind or challenge the Diller Parties’ extension of control should Diller or his successors struggle in their management of IAC.

78. Instead, the Special Committee was only able to get Diller to agree to largely ineffective protections. For example, Diller agreed that in any sale of IAC, he would not receive extra consideration or side benefits not shared with IAC’s public stockholders, but this protection is intentionally weak and largely chimeric. Diller would only agree to a waivable “equal treatment” that would allow him to do just what he is doing now. He can refuse value-enhancing offers, unless he gets disparate consideration. Diller also agreed to a so-called “stapling” provision so that he cannot sell or transfer any Class C Stock without also selling or transferring corresponding Class B Stock. This provision, however, is waivable and also carves out from the staple Class C Stock transfers to the other Diller Parties, which allows Diller to separate the voting Class B Stock and non-voting Class C Stock in



accordance with his tax avoidance plans.<sup>2</sup> Given the current situation with Sumner Redstone and Viacom, there is considerable value to Diller in being able to retain sole voting control. The intrafamily transfers create a loophole which defeats the purpose of the staple, and this motivation was not explained either to the Special Committee or the stockholders. Based on the Proxy, at no time did the Special Committee consider the impact the Proposed Reclassification would have on Diller's estate planning.

79. The staple also serves to mitigate a problem created by the Proposed Reclassification itself. It is not something the unaffiliated stockholders are getting in return and it provides them no value. Moreover, the staple remains a means of allowing Diller to retain control because he otherwise would be diluted naturally through employee stock grants and acquisitions.

80. Nonetheless, on October 17, 2016, the Special Committee determined to recommend the Proposed Reclassification to the Board. On November 1, 2016, in time for the annual meeting, the Board unanimously adopted resolutions approving the Proposed Reclassification.

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<sup>2</sup> This stapling provision does not prevent Diller from taking advantage of the potential tax benefits of the GRATs while separating Class B Stock and Class C Stock because the stapling provision merely requires that the "Diller Parties" together maintain ownership of at least as many non-voting as supervoting shares.

81. In describing the Special Committee’s and Board’s reasons for approving the Proposed Reclassification, the Proxy admits that growth through acquisitions is critical to increasing stockholder value, but any attempts to do so in the future, without the Proposed Reclassification, may face resistance from Diller to the resulting voting dilution:

The Special Committee and the Board believe that, in order to grow stockholder value, IAC must continue to pursue acquisition opportunities and that, in view of our current debt position and leverage capacity, IAC may need to use common equity as an acquisition currency. The ability to issue Class C common stock would permit us to use common equity as an acquisition currency without concerns regarding potential voting dilution of the Diller Parties and any potential inhibition on the willingness of the Diller Parties to support the use of common equity for acquisitions.

82. Thus, the Special Committee bowed to Diller’s threat that he would refuse to engage in value-enhancing transactions and even employee stock grants because it would dilute his control of IAC. By failing to secure a vote of a majority of the unaffiliated stockholders, the Special Committee likely ensured that the Proposed Reclassification will be approved.

**H. If Effectuated, the Proposed Reclassification Creates a Conflict and is Unfair**

83. On November 7, 2016, IAC filed the Proxy in connection with its for its 2016 annual meeting, which is scheduled to be held on December 15 (the “2016 Annual Meeting”). In the Proxy, the Board asks IAC’s stockholders to approve

two amendments to the Company's Restated Certificate of Incorporation: (i) to create Class C Stock and to authorize the issuance of 600,000,000 shares of it; and (ii) to provide that the Common Stock, Class B Stock, and new Class C Stock will share ratably on a per share basis in any dividends declared by the Board.

84. The Proposed Reclassification will be approved if a majority of the voting power of the Common Stock and Class B Stock, voting together as a single class, vote in favor of its adoption at the 2016 Annual Meeting. The approval of each amendment is cross-conditioned on the other—unless both are approved, neither will go into effect. There is no majority of the minority provision. Given Diller's coercion and the fact that the Diller Parties control 44.2% of the Company's voting power through their ownership of 100% of the outstanding super-voting Class B shares and have stated that they intend to vote in favor, the Proposed Reclassification is effectively guaranteed. The Proposed Reclassification will become effective once the Company files, and the Delaware Secretary of State accepts, IAC's new Amended and Restated Certificate of Incorporation.

85. That the Class C Stock will likely trade at a discount will necessarily make acquisitions using these shares more expensive, which Greenhill recognized. Greenhill advised the Special Committee that, based on precedent transactions, the Class C Stock would likely trade at a discount to the Common Stock. Thus, while using the Class C Stock for acquisitions and compensation would protect the Diller

Parties from voting dilution, it will likely lead to greater economic dilution of the public stockholders, who have the most economic skin in the game, because Diller does not intend to sell his Class B Stock and the Class C Stock will be less valuable than voting stock. No compensation is provided to the holders of Common Stock, nor did Greenhill render a fairness opinion, the absence of which the Delaware Supreme Court has concluded in similar circumstances renders it likely that defendants will not be able to demonstrate the entire fairness of deals involving recapitalizations resulting in disparate treatment of the holders of various classes of shares.

86. Diller's interest in this transaction conflicts with that of the majority investors and the Proposed Reclassification would be unfair and improper on that basis. The Proxy makes clear that Diller risked losing his control as IAC continued its long history of growing through acquisitions. According to the Proxy, IAC grew from a "hybrid media/electronic retailing company" into "a leading media and Internet company" through "a number of significant corporate transactions over the years." Moreover, "IAC has continued to engage in transformational corporate transactions . . . and expects to engage in these types of transactions in the future in order to continue to grow stockholder value."

87. Nevertheless, in November 2015, IAC made an offer to acquire Angie's List for approximately \$500 million, and said it was willing to consider a

stock-for-stock exchange. Given that the same capital structure existed then as now, Diller's true motives behind the Proposed Reclassification are suspect. One transaction like Angie's List would likely not dilute Diller below the threshold for control, but several transactions would dilute Diller and, more likely given his age, Diller's stepson and heir apparent. It is Alexander and Diller's family who is in most peril as controller.

88. The Proxy does not discuss the merits of control by Alexander or any other member of Diller's family. Perpetual control by Alexander is not the Board's to grant, and is plainly unfair to the public stockholders. Yet, the coerced and friendly Board went along with Diller's plan. The Proposed Reclassification provides enormous benefits to Diller by entrenching the Diller Parties' control into perpetuity. The Proposed Reclassification is an immense benefit or "give" of control to Diller. It is unclear what benefit or "get" IAC's minority stockholders will receive.

89. It not the province of corporate directors to entrench controlling stockholders and family members and deprive the minority from the opportunity to acquire control of the Company in the future. The Special Committee did not question the fitness of Diane von Furstenberg and Alexander to take control. Neither of them have any current executive position with IAC. Diller has never

explained what value accrues to the unaffiliated stockholders of enabling some other person within the Diller Parties to control the vote at IAC forever.

90. Perhaps unsurprisingly, the Special Committee failed to secure a fairness opinion regarding the Proposed Reclassification. The lack of a fairness opinion and Diller's refusal to put the Proposed Reclassification up for a vote of IAC's unaffiliated stockholders is telling. If this truly were in their best interests, the unaffiliated stockholders would be expected to vote in favor of the new Class C shares. In failing to obtain these common minority protections, the Board squandered its bargaining power against Diller.

91. The Special Committee recognized that the creation of a new class of non-voting economic stock would be detrimental to the current IAC common stockholders for two primary reasons:

[T]he likelihood that a Class C Issuance could reinforce the control or influence of the Diller Parties over IAC, which otherwise might be diluted over time as a result of additional issuances of IAC common stock by IAC or dispositions of Class B common stock by the Diller Parties. In addition, the Special Committee recognized that potential economic dilution could result from using Class C common stock rather than IAC common stock in the future for acquisitions, financings and equity awards, in view of the fact that Class C common stock would likely trade at a discount to the IAC common stock.

92. The recognition that Class C Stock is likely to trade at a discount is borne out by recent issuances of Class C non-voting shares by Google and Under

Armour, where at times the share price disparity has been quite high. Both Google and Under Armour, after being challenged prior to actually issuing proposed Class C non-voting stock, provided compensation to public stockholders for this detriment, something IAC's Board has not proposed to do.

93. The Special Committee recognized the negative aspects of the Proposed Reclassification. In fact, the Proxy lists a myriad of "Potential Negative Considerations Relating to the Class C Issuance," including that:

- a) The Proposed Reclassification "would reinforce the control or influence of the Diller Parties over IAC, which otherwise might be diluted over time if IAC were to issue additional shares of IAC common stock[;]"
- b) Class C Stock may not be attractive currency for acquisitions or employee equity awards as Class it lacks voting rights, and non-voting shares generally trade at a discount to voting shares;
- c) The Proposed Reclassification "may prolong the period during which our stockholders have a limited opportunity to sell their shares at a premium over prevailing market prices and limited ability to replace our directors and management[;]"
- d) "A Liquid Trading Market for the Class C Common Stock May Not Develop[;]"

- e) The Proposed Reclassification “may negatively affect the decision by certain institutional investors to purchase or hold shares of IAC common stock or Class C common stock[;]”
- f) The IRS may determine the Class C Stock ought to be treated differently for tax purposes than IAC’s existing Common Stock; and
- g) The Class C Issuance and the Dividend are not Subject to a Majority of the Minority Vote[.]”

94. IAC’s public stockholders will be forced to suffer this litany of negative consequences solely to satisfy Diller’s cupidity. Diller is coercing the Special Committee, forcing through an unfair deal, and breaching his fiduciary duties. Stockholders will suffer damages and irreparable harm if the Proposed Reclassification is allowed to proceed.

### **CLASS ACTION ALLEGATIONS**

95. Plaintiffs bring this action as a class action pursuant to Rule 23 of the Rules of the Court of Chancery of the State of Delaware on behalf of all holders of IAC common stock who have been or will be threatened with harm by the conduct described herein and their successors in interest (the “Class”). Excluded from the Class are the Defendants named herein and any person, firm, trust, corporation, or other entity related to or affiliated with any of the Defendants and their successors in interest.



96. This action is properly maintainable as a class action.

97. A class action is superior to other available methods of fair and efficient adjudication of this controversy.

98. The Class is so numerous that joinder of all members is impracticable. As of October 28, 2016, 73,500,407 shares of Common Stock were outstanding. Consequently, the number of Class members is believed to be in the hundreds or thousands and they are likely located across the globe.

99. There are questions of law and fact that are common to all Class members and that predominate over any questions affecting only individuals, including, but not limited to:

- a) whether the Director Defendants have breached and continue to breach their fiduciary duties by entrenching themselves and Diller at the expense of the Company's stockholders;
- b) whether the Reclassification is self-dealing such that the entire fairness standard applies;
- c) whether the Class will suffer irreparable harm if the Proposed Reclassification becomes effective; and
- d) whether the Class is entitled to injunctive relief and/or damages.

100. Plaintiffs' claims and defenses are typical of claims and defenses of other class members and Plaintiffs have no interests that are antagonistic or

adverse to the interest of other class members. Plaintiffs will fairly and adequately protect the interests of the Class.

101. Plaintiffs are committed to prosecuting this action and have retained competent counsel experienced in litigation of this nature.

102. Defendants have acted in a manner that affects Plaintiffs and all members of the Class alike, thereby making appropriate injunctive relief and/or corresponding declaratory relief with respect to the Class as a whole.

103. The prosecution of separate actions by individual members of the Class would create a risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for Defendants; or adjudications with respect to individual members of the Class that would, as a practical matter, be dispositive of the interests of other members or substantially impair or impede their ability to protect their interests.

## **CAUSES OF ACTION**

### **COUNT I**

#### **Breach of Fiduciary Duty (Against the Director Defendants)**

104. Plaintiffs reallege each allegation above, as though fully set forth herein.

105. By virtue of their positions as directors of IAC, the Director Defendants owe fiduciary duties of care, loyalty, and good faith to IAC's

stockholders. These fiduciary duties required them to place the interests of IAC and its stockholder above their own interests and/or the interests of Diller.

106. By reason of the foregoing, the Director Defendants have breached and continue to breach their fiduciary duties. In particular, the Director Defendants have violated their fiduciary duties of care and loyalty by, among other things, agreeing to the Proposed Reclassification, at the expense of minority stockholders and unfairly perpetuate his and his future heirs' control of IAC and entrench themselves in office.

107. Moreover, by failing to disclose Diller's dynastic motivation behind the Proposed Reclassifications, the Director defendants have not disclosed all material information to stockholders and have breached their fiduciary duties.

108. As a direct and proximate result of the foregoing breaches of fiduciary duty by the Director Defendants, Plaintiffs and the Class have been harmed and will continue to be harmed as they will lose the opportunity to influence the management decisions of IAC on an ongoing, long-term basis, and the value of their investments in IAC will be diminished.

109. Plaintiffs and the Class have no adequate remedy at law.

## **COUNT II**

### **Breach of Fiduciary Duty (Against Diller)**

110. Plaintiffs reallege each allegation above, as though fully set forth herein.

111. Diller is the controlling stockholder of IAC and, as such, owes Plaintiffs and the Class the utmost fiduciary duties of care and loyalty.

112. By reason of the foregoing, Diller has breached his fiduciary duties and continues to breach his duties. In particular, Diller has violated his fiduciary duties by, among other things, coercing the Board to agree to the Proposed Reclassification, which will provide him with lucrative tax benefits at the expense of Plaintiffs and the Class and unfairly perpetuate his control of IAC.

113. Furthermore, by threatening to block value-enhancing transactions solely to maintain his control over IAC, Diller is improperly coercing the Special Committee and IAC's unaffiliated stockholders to vote in favor of the Proposed Reclassification.

114. As a result, Plaintiffs and the Class have been harmed and will continue to be harmed as they will lose the opportunity to influence the management decisions of IAC on an ongoing, long-term basis, and the value of their investments in IAC will be diminished.

115. Plaintiffs and the Class have no adequate remedy at law.

### **COUNT III**

#### **Injunctive Relief Against IAC**

116. Plaintiffs reallege each allegation above, as though fully set forth herein.

117. By reason of the foregoing, Diller and the other Director Defendants have breached their fiduciary duties and continue to breach their fiduciary duties. Diller coerced the Special Committee, and is coercing the unaffiliated stockholders, into approving the Proposed Reclassification.

118. As a result, Plaintiff and the Class will suffer irreparable harm if the Proposed Reclassification becomes effective. The Proposed Reclassification cannot become effective until IAC files, and the Delaware Secretary of State accepts, the Amended and Restated Certificate of Incorporation.

119. Therefore, Plaintiffs and the Class are entitled to an injunction prohibiting the Company from filing the Amended and Restated Certificate of Incorporation with the Delaware Secretary of State.

#### **PRAYER FOR RELIEF**

**WHEREFORE**, Plaintiffs seek the following relief:

- a) A declaration that this action is properly maintainable as a class action, and certifying Plaintiffs as representatives of the Class;

- b) A declaration that that the Director Defendants have breached their fiduciary duties by approving the Proposed Reclassification;
- c) A declaration that Diller breached his duties as a controlling stockholder by causing the Board to approve the Proposed Reclassification;
- d) Enjoining the Company, and all of its employees, agents, or representatives, from filing the Amended and Restated Certificate of Incorporation with the Delaware Secretary of State and issuing Class C Stock;
- e) Awarding Plaintiffs and the Class appropriate compensatory damages, together with pre- and post-judgment interest;
- f) Awarding Plaintiffs the costs, expenses, and disbursements of this action, including attorneys' and experts' fees; and
- g) Awarding Plaintiffs and the Class such other and further relief as this Court may deem just, equitable, and proper.

FRIEDLANDER & GORRIS P.A.

*/s/ Joel Friedlander*

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