

IAC/INTERACTIVECORP

Form 10-Q

August 08, 2013

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As filed with the Securities and Exchange Commission on August 8, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2013

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-20570

IAC/INTERACTIVECORP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

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

(Address of registrant's principal executive offices)

(212) 314-7300

(Registrant's telephone number, including area code)

59-2712887

(I.R.S. Employer

Identification No.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Non-accelerated filer ☐

Large accelerated filer ☒

Accelerated filer ☐

(Do not check if a smaller  
reporting company)

Smaller reporting company ☐

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

As of July 26, 2013, the following shares of the registrant's common stock were outstanding:

Common Stock

77,185,633

Class B Common Stock

5,789,499

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Total outstanding Common Stock

82,975,132

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of July 26, 2013 was \$3,963,580,179. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

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## PART I

## FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## IAC/INTERACTIVECORP

## CONSOLIDATED BALANCE SHEET

(Unaudited)

|                                                                                                                                                           | June 30, 2013                     | December 31,<br>2012 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------|
|                                                                                                                                                           | (In thousands, except share data) |                      |
| <b>ASSETS</b>                                                                                                                                             |                                   |                      |
| Cash and cash equivalents                                                                                                                                 | \$678,725                         | \$749,977            |
| Marketable securities                                                                                                                                     | 7,775                             | 20,604               |
| Accounts receivable, net of allowance of \$9,596 and \$11,088, respectively                                                                               | 235,950                           | 229,830              |
| Other current assets                                                                                                                                      | 148,285                           | 156,339              |
| Total current assets                                                                                                                                      | 1,070,735                         | 1,156,750            |
| Property and equipment, net                                                                                                                               | 289,493                           | 270,512              |
| Goodwill                                                                                                                                                  | 1,664,315                         | 1,616,154            |
| Intangible assets, net                                                                                                                                    | 466,161                           | 482,904              |
| Long-term investments                                                                                                                                     | 196,811                           | 161,278              |
| Other non-current assets                                                                                                                                  | 124,976                           | 118,230              |
| <b>TOTAL ASSETS</b>                                                                                                                                       | <b>\$3,812,491</b>                | <b>\$3,805,828</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                               |                                   |                      |
| <b>LIABILITIES:</b>                                                                                                                                       |                                   |                      |
| Current maturities of long-term debt                                                                                                                      | \$—                               | \$15,844             |
| Accounts payable, trade                                                                                                                                   | 83,294                            | 98,314               |
| Deferred revenue                                                                                                                                          | 164,667                           | 155,499              |
| Accrued expenses and other current liabilities                                                                                                            | 362,695                           | 355,232              |
| Total current liabilities                                                                                                                                 | 610,656                           | 624,889              |
| Long-term debt, net of current maturities                                                                                                                 | 580,000                           | 580,000              |
| Income taxes payable                                                                                                                                      | 496,168                           | 479,945              |
| Deferred income taxes                                                                                                                                     | 312,905                           | 323,403              |
| Other long-term liabilities                                                                                                                               | 66,081                            | 31,830               |
| Redeemable noncontrolling interests                                                                                                                       | 64,147                            | 58,126               |
| Commitments and contingencies                                                                                                                             |                                   |                      |
| <b>SHAREHOLDERS' EQUITY:</b>                                                                                                                              |                                   |                      |
| Common stock \$.001 par value; authorized 1,600,000,000 shares; issued 250,982,079 shares, and outstanding 77,120,701 and 78,471,784 shares, respectively | 251                               | 251                  |
| Class B convertible common stock \$.001 par value; authorized 400,000,000 shares; issued 16,157,499 shares and outstanding 5,789,499 shares               | 16                                | 16                   |
| Additional paid-in capital                                                                                                                                | 11,604,296                        | 11,607,367           |
| Accumulated deficit                                                                                                                                       | (206,592)                         | (318,519)            |
| Accumulated other comprehensive loss                                                                                                                      | (32,187)                          | (32,169)             |
| Treasury stock 184,229,378 and 182,878,295 shares, respectively                                                                                           | (9,734,479)                       | (9,601,218)          |
| Total IAC shareholders' equity                                                                                                                            | 1,631,305                         | 1,655,728            |
| Noncontrolling interests                                                                                                                                  | 51,229                            | 51,907               |

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|                                            |             |             |
|--------------------------------------------|-------------|-------------|
| Total shareholders' equity                 | 1,682,534   | 1,707,635   |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$3,812,491 | \$3,805,828 |

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

IAC/INTERACTIVECORP  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

|                                                                    | Three Months Ended June 30,           |            | Six Months Ended June 30, |             |
|--------------------------------------------------------------------|---------------------------------------|------------|---------------------------|-------------|
|                                                                    | 2013                                  | 2012       | 2013                      | 2012        |
|                                                                    | (In thousands, except per share data) |            |                           |             |
| Revenue                                                            | \$799,411                             | \$680,612  | \$1,541,660               | \$1,321,212 |
| Costs and expenses:                                                |                                       |            |                           |             |
| Cost of revenue (exclusive of depreciation shown separately below) | 272,822                               | 237,304    | 528,671                   | 460,604     |
| Selling and marketing expense                                      | 247,153                               | 211,252    | 490,067                   | 430,038     |
| General and administrative expense                                 | 103,515                               | 89,639     | 199,239                   | 178,111     |
| Product development expense                                        | 34,052                                | 26,911     | 69,169                    | 55,032      |
| Depreciation                                                       | 17,036                                | 12,225     | 31,052                    | 24,340      |
| Amortization of intangibles                                        | 18,137                                | 5,805      | 32,215                    | 12,846      |
| Total costs and expenses                                           | 692,715                               | 583,136    | 1,350,413                 | 1,160,971   |
| Operating income                                                   | 106,696                               | 97,476     | 191,247                   | 160,241     |
| Equity in losses of unconsolidated affiliates                      | (1,078)                               | ) (19,009) | ) (1,169)                 | ) (24,910)  |
| Interest expense                                                   | (7,658)                               | ) (1,364)  | ) (15,321)                | ) (2,711)   |
| Other (expense) income, net                                        | (4)                                   | ) (368)    | ) 1,654                   | 2,388       |
| Earnings from continuing operations before income taxes            | 97,956                                | 76,735     | 176,411                   | 135,008     |
| Income tax provision                                               | (39,416)                              | ) (28,634) | ) (65,162)                | ) (55,754)  |
| Earnings from continuing operations                                | 58,540                                | 48,101     | 111,249                   | 79,254      |
| Loss from discontinued operations, net of tax                      | (1,068)                               | ) (4,641)  | ) (2,012)                 | ) (957)     |
| Net earnings                                                       | 57,472                                | 43,460     | 109,237                   | 78,297      |
| Net loss (earnings) attributable to noncontrolling interests       | 818                                   | (128)      | ) 2,690                   | (487)       |
| Net earnings attributable to IAC shareholders                      | \$58,290                              | \$43,332   | \$111,927                 | \$77,810    |
| Per share information attributable to IAC shareholders:            |                                       |            |                           |             |
| Basic earnings per share from continuing operations                | \$0.71                                | \$0.56     | \$1.36                    | \$0.93      |
| Diluted earnings per share from continuing operations              | \$0.69                                | \$0.52     | \$1.31                    | \$0.86      |
| Basic earnings per share                                           | \$0.70                                | \$0.50     | \$1.33                    | \$0.92      |
| Diluted earnings per share                                         | \$0.67                                | \$0.47     | \$1.29                    | \$0.85      |
| Dividends declared per share                                       | \$0.24                                | \$0.12     | \$0.48                    | \$0.24      |
| Non-cash compensation expense by function:                         |                                       |            |                           |             |
| Cost of revenue                                                    | \$681                                 | \$1,501    | \$1,301                   | \$3,225     |
| Selling and marketing expense                                      | 794                                   | 1,004      | 1,180                     | 2,126       |
| General and administrative expense                                 | 9,427                                 | 16,411     | 20,207                    | 33,528      |
| Product development expense                                        | 918                                   | 1,525      | 1,795                     | 3,028       |
| Total non-cash compensation expense                                | \$11,820                              | \$20,441   | \$24,483                  | \$41,907    |

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

IAC/INTERACTIVECORP  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(Unaudited)

|                                                                                                                                                                                                                                                                                                                         | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------|---------------------------|-----------|
|                                                                                                                                                                                                                                                                                                                         | 2013                        | 2012      | 2013                      | 2012      |
|                                                                                                                                                                                                                                                                                                                         | (In thousands)              |           |                           |           |
| Net earnings                                                                                                                                                                                                                                                                                                            | \$57,472                    | \$43,460  | \$109,237                 | \$78,297  |
| Other comprehensive (loss) income, net of tax:                                                                                                                                                                                                                                                                          |                             |           |                           |           |
| Change in foreign currency translation adjustment                                                                                                                                                                                                                                                                       | (4,598                      | ) (26,634 | ) (13,021                 | ) (19,549 |
| Change in net unrealized gains (losses) on available-for-sale securities (net of tax provision of \$740 and tax benefit of \$84 for the three and six months ended June 30, 2013, respectively, and tax benefit of \$5,475 and tax provision of \$7,104 for the three and six months ended June 30, 2012, respectively) | 17,187                      | (11,281   | ) 12,211                  | 13,443    |
| Total other comprehensive income (loss)                                                                                                                                                                                                                                                                                 | 12,589                      | (37,915   | ) (810                    | ) (6,106  |
| Comprehensive income                                                                                                                                                                                                                                                                                                    | 70,061                      | 5,545     | 108,427                   | 72,191    |
| Comprehensive loss attributable to noncontrolling interests                                                                                                                                                                                                                                                             | 138                         | 3,774     | 3,482                     | 2,502     |
| Comprehensive income attributable to IAC shareholders                                                                                                                                                                                                                                                                   | \$70,199                    | \$9,319   | \$111,909                 | \$74,693  |

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

IAC/INTERACTIVECORP  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(Unaudited)

|                                                                                                                                                           | IAC Shareholders' Equity                  |                                     |         |                                                               |        |                                  |                        |                                               |               |                   |                                   |                             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------|---------|---------------------------------------------------------------|--------|----------------------------------|------------------------|-----------------------------------------------|---------------|-------------------|-----------------------------------|-----------------------------|
|                                                                                                                                                           | Redeemable<br>Noncontrolling<br>Interests | Common<br>Stock \$.001<br>Par Value |         | Class B<br>Convertible<br>Common<br>Stock \$.001<br>Par Value |        | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss |               | Treasury<br>Stock | Total IAC<br>Shareholders' Equity | Noncontrolling<br>Interests |
|                                                                                                                                                           |                                           | \$                                  | Shares  | \$                                                            | Shares |                                  |                        |                                               |               |                   |                                   |                             |
| (In thousands)                                                                                                                                            |                                           |                                     |         |                                                               |        |                                  |                        |                                               |               |                   |                                   |                             |
| Balance as of<br>December 31, 2012                                                                                                                        | \$58,126                                  | \$251                               | 250,982 | \$16                                                          | 16,157 | \$11,607,367                     | \$(318,519)            | \$(32,169)                                    | \$(9,601,218) |                   | \$1,655,728                       | \$51,126                    |
| Net (loss)<br>earnings for the<br>six months ended June 30, 2013                                                                                          | (2,451 )                                  | —                                   | —       | —                                                             | —      | —                                | 111,927                | —                                             | —             |                   | 111,927                           | (239 )                      |
| Other<br>comprehensive loss, net of tax                                                                                                                   | (291 )                                    | —                                   | —       | —                                                             | —      | —                                | —                      | (18 )                                         | —             |                   | (18 )                             | (501 )                      |
| Non-cash<br>compensation expense                                                                                                                          | —                                         | —                                   | —       | —                                                             | —      | 24,277                           | —                      | —                                             | —             |                   | 24,277                            | 206                         |
| Issuance of<br>common stock<br>upon exercise<br>of stock<br>options, vesting<br>of restricted<br>stock units and<br>other, net of<br>withholding<br>taxes | —                                         | —                                   | —       | —                                                             | —      | (5,719 )                         | —                      | —                                             | 2             |                   | (5,717 )                          | —                           |
| Income tax<br>benefit related<br>to the exercise<br>of stock<br>options, vesting<br>of restricted<br>stock units and<br>other                             | —                                         | —                                   | —       | —                                                             | —      | 23,308                           | —                      | —                                             | —             |                   | 23,308                            | —                           |
| Dividends                                                                                                                                                 | —                                         | —                                   | —       | —                                                             | —      | (37,703 )                        | —                      | —                                             | —             |                   | (37,703 )                         | —                           |
| Purchase of<br>treasury stock                                                                                                                             | —                                         | —                                   | —       | —                                                             | —      | —                                | —                      | —                                             | (133,263 )    |                   | (133,263 )                        | —                           |
| Purchase of<br>redeemable<br>noncontrolling                                                                                                               | (1,347 )                                  | —                                   | —       | —                                                             | —      | —                                | —                      | —                                             | —             |                   | —                                 | —                           |

interests

Adjustment of

redeemable

noncontrolling 9,787

—

—

—

—

(9,787

)

—

—

—

(9,787

)

—

interests to fair

value

Transfer from

noncontrolling

interests to

redeemable 144

—

—

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—

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—

—

(144

noncontrolling

interests

Other 179

—

—

—

—

2,553

—

—

—

2,553

—

Balance as of

June 30, 2013

\$64,147

\$251

250,982

\$16

16,157

\$11,604,296

\$(206,592)

\$(32,187)

\$(9,734,479)

\$1,631,305

\$51,

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

IAC/INTERACTIVECORP  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

|                                                                                                                                                  | Six Months Ended June 30, |           |
|--------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------|
|                                                                                                                                                  | 2013                      | 2012      |
|                                                                                                                                                  | (In thousands)            |           |
| Cash flows from operating activities attributable to continuing operations:                                                                      |                           |           |
| Net earnings                                                                                                                                     | \$ 109,237                | \$ 78,297 |
| Less: loss from discontinued operations, net of tax                                                                                              | (2,012)                   | (957)     |
| Earnings from continuing operations                                                                                                              | 111,249                   | 79,254    |
| Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations: |                           |           |
| Non-cash compensation expense                                                                                                                    | 24,483                    | 41,907    |
| Depreciation                                                                                                                                     | 31,052                    | 24,340    |
| Amortization of intangibles                                                                                                                      | 32,215                    | 12,846    |
| Excess tax benefits from stock-based awards                                                                                                      | (23,547)                  | (14,353)  |
| Deferred income taxes                                                                                                                            | (6,737)                   | 819       |
| Equity in losses of unconsolidated affiliates                                                                                                    | 1,169                     | 24,910    |
| Acquisition-related contingent consideration fair value adjustment                                                                               | 5,707                     | —         |
| Changes in assets and liabilities, net of effects of acquisitions:                                                                               |                           |           |
| Accounts receivable                                                                                                                              | (9,754)                   | (19,382)  |
| Other current assets                                                                                                                             | (14,789)                  | (7,937)   |
| Accounts payable and other current liabilities                                                                                                   | 23,438                    | 3,013     |
| Income taxes payable                                                                                                                             | 45,529                    | 44,793    |
| Deferred revenue                                                                                                                                 | (203)                     | 8,679     |
| Other, net                                                                                                                                       | 8,451                     | 6,638     |
| Net cash provided by operating activities attributable to continuing operations                                                                  | 228,263                   | 205,527   |
| Cash flows from investing activities attributable to continuing operations:                                                                      |                           |           |
| Acquisitions, net of cash acquired                                                                                                               | (36,913)                  | (20,411)  |
| Capital expenditures                                                                                                                             | (47,819)                  | (20,353)  |
| Proceeds from maturities and sales of marketable debt securities                                                                                 | 12,502                    | 39,000    |
| Purchases of marketable debt securities                                                                                                          | —                         | (24,254)  |
| Proceeds from sales of long-term investments                                                                                                     | 310                       | 12,527    |
| Purchases of long-term investments                                                                                                               | (25,259)                  | (6,244)   |
| Other, net                                                                                                                                       | (1,443)                   | (12,603)  |
| Net cash used in investing activities attributable to continuing operations                                                                      | (98,622)                  | (32,338)  |
| Cash flows from financing activities attributable to continuing operations:                                                                      |                           |           |
| Purchase of treasury stock                                                                                                                       | (162,660)                 | (359,231) |
| Net (payments) proceeds from stock-based award activities                                                                                        | (868)                     | 301,677   |
| Dividends                                                                                                                                        | (38,880)                  | (21,697)  |
| Excess tax benefits from stock-based awards                                                                                                      | 23,547                    | 14,353    |
| Principal payments on long-term debt                                                                                                             | (15,844)                  | —         |
| Other, net                                                                                                                                       | (3,634)                   | (2,842)   |
| Net cash used in financing activities attributable to continuing operations                                                                      | (198,339)                 | (67,740)  |
| Total cash (used in) provided by continuing operations                                                                                           | (68,698)                  | 105,449   |
| Total cash provided by (used in) discontinued operations                                                                                         | 2,335                     | (729)     |
| Effect of exchange rate changes on cash and cash equivalents                                                                                     | (4,889)                   | (1,677)   |
| Net (decrease) increase in cash and cash equivalents                                                                                             | (71,252)                  | 103,043   |
| Cash and cash equivalents at beginning of period                                                                                                 | 749,977                   | 704,153   |

|                                            |           |           |
|--------------------------------------------|-----------|-----------|
| Cash and cash equivalents at end of period | \$678,725 | \$807,196 |
|--------------------------------------------|-----------|-----------|

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

IAC/INTERACTIVECORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

IAC is a leading media and internet company comprised of more than 150 brands and products, including Ask.com, About.com, Match.com, HomeAdvisor.com and Vimeo.com. Focused in the areas of search, applications, online dating, local and media, IAC's network of websites is one of the largest in the world, with more than a billion monthly visits across more than 30 countries. IAC includes the businesses comprising its Search & Applications, Match, Local, Media and Other segments, as well as investments in unconsolidated affiliates.

All references to "IAC," the "Company," "we," "our" or "us" in this report are to IAC/InterActiveCorp.

Basis of Presentation

The consolidated financial statements include the accounts of the Company, all entities that are wholly-owned by the Company and all entities in which the Company has a controlling financial interest. Intercompany transactions and accounts have been eliminated. Investments in entities in which the Company has the ability to exercise significant influence over the operating and financial matters of the investee, but does not have a controlling financial interest, are accounted for using the equity method and are included in "Long-term investments" in the accompanying consolidated balance sheet.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2012 included in our Current Report on Form 8-K dated May 3, 2013.

Accounting Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates, judgments and assumptions that impact the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. Actual results could differ from those estimates. On an ongoing basis, the Company evaluates its estimates and judgments including those related to: the fair values of marketable securities and other investments; the recoverability of goodwill and indefinite-lived intangible assets; the useful lives and recovery of definite-lived intangible assets and property and equipment; the carrying value of accounts receivable, including the determination of the allowance for doubtful accounts and revenue reserves; the fair value of acquisition-related contingent consideration; the reserves for income tax contingencies; the valuation allowance for deferred income tax assets; and the fair value of and forfeiture rates for stock-based awards, among others. The Company bases its estimates and judgments on historical experience, its forecasts and budgets and other factors that the Company considers relevant.

Certain Risks and Concentrations

A substantial portion of the Company's revenue is derived from online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or changes in advertising spending behavior or in customer buying behavior could adversely affect our operating results. Most of the Company's online advertising revenue is attributable to a services agreement with Google Inc. ("Google"), which expires on March 31, 2016. Our services agreement requires that we comply with certain guidelines promulgated by Google. Subject to certain limitations, Google may unilaterally update its policies and guidelines, which could in turn require modifications to, or prohibit and/or render obsolete certain of, our products, services and/or business practices, which could be costly to address or otherwise have an adverse effect on our business, financial condition and results of operations. For the three

and six months ended June 30, 2013, revenue earned from Google is \$405.8 million and \$781.9 million, respectively. For the three and six months ended June 30, 2012, revenue earned from Google is \$335.8 million and \$664.7 million, respectively. This revenue is earned by the businesses comprising the

IAC/INTERACTIVECORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Search & Applications segment. Accounts receivable related to revenue earned from Google totaled \$140.2 million at June 30, 2013 and \$125.3 million at December 31, 2012.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2—INCOME TAXES

At the end of each interim period, the Company makes its best estimate of the annual expected effective income tax rate and applies that rate to its ordinary year-to-date earnings or loss. The income tax provision or benefit related to significant, unusual, or extraordinary items, if applicable, that will be separately reported or reported net of their related tax effects are individually computed and recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates, tax status, judgment on the realizability of a beginning-of-the-year deferred tax asset in future years or income tax contingencies is recognized in the interim period in which the change occurs.

The computation of the annual expected effective income tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected pre-tax income (or loss) for the year, projections of the proportion of income (and/or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of the realizability of deferred tax assets generated in the current year. The accounting estimates used to compute the provision or benefit for income taxes may change as new events occur, more experience is acquired, additional information is obtained or our tax environment changes. To the extent that the expected annual effective income tax rate changes during a quarter, the effect of the change on prior quarters is included in income tax provision in the quarter in which the change occurs.

For the three and six months ended June 30, 2013, the Company recorded an income tax provision for continuing operations of \$39.4 million and \$65.2 million, respectively, which represents effective income tax rates of 40% and 37%, respectively. The effective rates for the three and six months ended June 30, 2013 are higher than the statutory rate of 35% due primarily to state taxes and interest on reserves for income tax contingencies, partially offset by foreign income taxed at lower rates. For the three and six months ended June 30, 2012, the Company recorded an income tax provision for continuing operations of \$28.6 million and \$55.8 million, respectively, which represents effective income tax rates of 37% and 41%, respectively. The effective rate for the three months ended June 30, 2012 is higher than the statutory rate of 35% due primarily to a valuation allowance on the deferred tax asset created by News\_Beast (formerly The Newsweek/Daily Beast Company) non-cash re-measurement charge related to our acquisition of a controlling interest, and state taxes, partially offset by foreign income taxed at lower rates and a net decrease in the valuation allowance on beginning of the year deferred tax assets related to investments in unconsolidated affiliates. The effective rate for the six months ended June 30, 2012 is higher than the statutory rate of 35% due primarily to an increase in reserves for and interest on reserves for income tax contingencies, a valuation allowance on the deferred tax asset created by the News\_Beast non-cash re-measurement charge, and state taxes, partially offset by foreign income taxed at lower rates and a net decrease in the valuation allowance on beginning of the year deferred tax assets related to investments in unconsolidated affiliates.

At June 30, 2013 and December 31, 2012, unrecognized tax benefits, including interest, are \$499.3 million and \$496.8 million, respectively. Unrecognized tax benefits, including interest, at June 30, 2013 increased by \$2.5 million due principally to interest, partially offset by a net decrease in deductible timing differences. Of the total unrecognized tax benefits at June 30, 2013, \$484.0 million is included in "Income taxes payable," \$15.0 million relates to deferred tax assets included in "Deferred income taxes" and \$0.3 million is included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheet. Included in unrecognized tax benefits at June 30, 2013 is \$70.3 million relating to tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. If unrecognized tax benefits at June 30, 2013 are subsequently recognized, \$112.6 million and \$224.3 million, net of related deferred tax assets and interest, would reduce income tax expense for continuing operations and discontinued operations, respectively.

The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax provision. Included in the income tax provision for continuing operations and discontinued operations for the three months ended June 30, 2013 is a \$1.5 million and a \$1.0 million expense, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. Included in the income tax provision for continuing operations and discontinued operations for the six months ended June 30, 2013 is a \$2.9 million and a \$2.0 million expense, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. At June 30, 2013 and December 31, 2012, the Company has accrued \$125.0 million and

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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\$117.5 million, respectively, for the payment of interest. At June 30, 2013 and December 31, 2012, the Company has accrued \$5.0 million for penalties.

The Company is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. The Internal Revenue Service ("IRS") has substantially completed its audit of the Company's tax returns for the years ended December 31, 2001 through 2009. The settlement of these tax years has been submitted to the Joint Committee of Taxation for approval. The statute of limitations for the years 2001 through 2009 is extended through June 30, 2014. Various state and local jurisdictions are currently under examination, the most significant of which are California, New York and New York City for various tax years beginning with 2006. Income taxes payable include reserves considered sufficient to pay assessments that may result from examination of prior year tax returns. Changes to reserves from period to period and differences between amounts paid, if any, upon resolution of issues raised in audits and amounts previously provided may be material. Differences between the reserves for income tax contingencies and the amounts owed by the Company are recorded in the period they become known. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by \$124.4 million within twelve months of the current reporting date, of which approximately \$16.8 million could decrease income tax provision, primarily due to settlements, expirations of statutes of limitations, and the reversal of deductible temporary differences that will primarily result in a corresponding decrease in net deferred tax assets. An estimate of other changes in unrecognized tax benefits, while potentially significant, cannot be made.

## NOTE 3—BUSINESS COMBINATIONS

## Acquisition of Twoo

On January 4, 2013, Meetic S.A., a Match subsidiary, purchased all the outstanding shares of Massive Media NV, which operates Twoo, a social discovery website that allows its users to meet new people. The purchase price was \$25.0 million in cash, plus potential additional consideration of up to €83.2 million (or \$109.0 million using the June 30, 2013 exchange rate) that is contingent upon a combination of earnings performance and user growth through December 31, 2015. The fair value of the contingent consideration arrangement at the acquisition date was \$40.8 million. See Note 5 for additional information related to the fair value measurement of the contingent consideration arrangement.

## Acquisition of About, Inc.

On September 24, 2012, IAC completed its purchase of all the outstanding shares of About, Inc. ("The About Group"), an online content and reference library offering expert, quality content across 90,000 topics. The purchase price was \$300 million in cash, plus an amount equal to the net working capital of \$17.1 million at closing. The financial results of The About Group are included in IAC's consolidated financial statements, within the Search & Applications segment, beginning October 1, 2012.

The unaudited pro forma financial information in the table below summarizes the combined results of IAC and The About Group as if the acquisition of The About Group had occurred on January 1, 2012. The pro forma financial information includes adjustments required under the acquisition method of accounting and is presented for informational purposes only and is not necessarily indicative of what the results would have been had the acquisition occurred on January 1, 2012. For the three and six months ended June 30, 2012, pro forma adjustments reflected below include an increase of \$4.5 million and \$9.5 million, respectively, in amortization of intangible assets.

|                                                           | Three Months<br>Ended June 30,<br>2012 | Six Months Ended<br>June 30, 2012 |
|-----------------------------------------------------------|----------------------------------------|-----------------------------------|
|                                                           | (In thousands, except per share data)  |                                   |
| Revenue                                                   | \$706,022                              | \$1,370,567                       |
| Net earnings attributable to IAC shareholders             | \$46,122                               | \$81,813                          |
| Basic earnings per share attributable to IAC shareholders | \$0.54                                 | \$0.97                            |

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|                                                             |        |        |
|-------------------------------------------------------------|--------|--------|
| Diluted earnings per share attributable to IAC shareholders | \$0.50 | \$0.89 |
|-------------------------------------------------------------|--------|--------|

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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## NOTE 4—MARKETABLE SECURITIES

At June 30, 2013, current available-for-sale marketable securities are as follows:

|                             | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|-----------------------------|-------------------|------------------------------|-------------------------------|-------------------------|
|                             | (In thousands)    |                              |                               |                         |
| Corporate debt security     | \$ 1,003          | \$ 11                        | \$ —                          | \$ 1,014                |
| Total debt security         | 1,003             | 11                           | —                             | 1,014                   |
| Equity security             | —                 | 6,761                        | —                             | 6,761                   |
| Total marketable securities | \$ 1,003          | \$ 6,772                     | \$ —                          | \$ 7,775                |

The contractual maturity of the debt security classified as available-for-sale at June 30, 2013 is less than one year.

At December 31, 2012, current available-for-sale marketable securities are as follows:

|                             | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|-----------------------------|-------------------|------------------------------|-------------------------------|-------------------------|
|                             | (In thousands)    |                              |                               |                         |
| Corporate debt securities   | \$ 13,608         | \$ 19                        | \$ —                          | \$ 13,627               |
| Total debt securities       | 13,608            | 19                           | —                             | 13,627                  |
| Equity security             | —                 | 6,977                        | —                             | 6,977                   |
| Total marketable securities | \$ 13,608         | \$ 6,996                     | \$ —                          | \$ 20,604               |

The net unrealized gains in the tables above are included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet.

At June 30, 2013 and December 31, 2012, there are no investments in current available-for-sale marketable securities that are in an unrealized loss position.

The following table presents the proceeds from maturities and sales of current and non-current available-for-sale marketable securities and the related gross realized gains and losses:

|                                                                                | Three Months Ended June<br>30, |           | Six Months Ended June 30, |           |
|--------------------------------------------------------------------------------|--------------------------------|-----------|---------------------------|-----------|
|                                                                                | 2013                           | 2012      | 2013                      | 2012      |
|                                                                                | (In thousands)                 |           |                           |           |
| Proceeds from maturities and sales of available-for-sale marketable securities | \$ 2                           | \$ 21,376 | \$ 12,502                 | \$ 47,777 |
| Gross realized gains                                                           | —                              | 15        | —                         | 1,798     |
| Gross realized losses                                                          | —                              | —         | —                         | —         |

Gross realized gains and losses from the maturities and sales of available-for-sale marketable securities are included in "Other (expense) income, net" in the accompanying consolidated statement of operations.

The specific-identification method is used to determine the cost of securities sold and the amount of unrealized gains and losses reclassified out of accumulated other comprehensive income into earnings.

## NOTE 5—FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The Company categorizes its financial instruments measured at fair value into a fair value hierarchy that prioritizes the inputs used in pricing the asset or liability. The three levels of the fair value hierarchy are:

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Level 1: Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are derived principally from or corroborated by observable market data. The fair value of the Company's Level 2 financial assets are primarily obtained from observable market prices for identical underlying securities that may not be actively traded. Certain of these securities may have different market prices from multiple market data sources, in which case an average market price is used.

Level 3: Unobservable inputs for which there is little or no market data and require the Company to develop its own assumptions, based on the best information available in the circumstances, about the assumptions market participants would use in pricing the assets or liabilities. See below for a discussion of fair value measurements made using Level 3 inputs.

The following tables present the Company's financial instruments that are measured at fair value on a recurring basis:

|                                      | June 30, 2013  |             |              |              |
|--------------------------------------|----------------|-------------|--------------|--------------|
|                                      | Quoted Market  |             |              |              |
|                                      | Prices in      | Significant | Significant  | Total        |
|                                      | Active         | Other       | Unobservable | Fair Value   |
|                                      | Markets for    | Observable  | Inputs       | Measurements |
|                                      | Identical      | Inputs      | (Level 3)    |              |
|                                      | Assets         | (Level 2)   |              |              |
|                                      | (Level 1)      |             |              |              |
|                                      | (In thousands) |             |              |              |
| Assets:                              |                |             |              |              |
| Cash equivalents:                    |                |             |              |              |
| Money market funds                   | \$ 320,989     | \$—         | \$—          | \$ 320,989   |
| Commercial paper                     | —              | 109,629     | —            | 109,629      |
| Time deposits                        | —              | 100,822     | —            | 100,822      |
| Marketable securities:               |                |             |              |              |
| Corporate debt security              | —              | 1,014       | —            | 1,014        |
| Equity security                      | 6,761          | —           | —            | 6,761        |
| Long-term investments:               |                |             |              |              |
| Auction rate security                | —              | —           | 8,760        | 8,760        |
| Marketable equity securities         | 42,934         | —           | —            | 42,934       |
| Total                                | \$ 370,684     | \$ 211,465  | \$ 8,760     | \$ 590,909   |
| Liabilities:                         |                |             |              |              |
| Contingent consideration arrangement | \$—            | \$—         | \$(46,912)   | \$(46,912)   |

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

|                              | December 31, 2012 |             |              |              |
|------------------------------|-------------------|-------------|--------------|--------------|
|                              | Quoted Market     |             |              |              |
|                              | Prices in         | Significant | Significant  | Total        |
|                              | Active            | Other       | Unobservable | Fair Value   |
|                              | Markets for       | Observable  | Inputs       | Measurements |
|                              | Identical         | Inputs      | (Level 3)    |              |
|                              | Assets            | (Level 2)   |              |              |
|                              | (Level 1)         |             |              |              |
|                              | (In thousands)    |             |              |              |
| Assets:                      |                   |             |              |              |
| Cash equivalents:            |                   |             |              |              |
| Money market funds           | \$545,290         | \$—         | \$—          | \$545,290    |
| Time deposits                | —                 | 11,994      | —            | 11,994       |
| Marketable securities:       |                   |             |              |              |
| Corporate debt securities    | —                 | 13,627      | —            | 13,627       |
| Equity security              | 6,977             | —           | —            | 6,977        |
| Long-term investments:       |                   |             |              |              |
| Auction rate security        | —                 | —           | 8,100        | 8,100        |
| Marketable equity securities | 31,244            | —           | —            | 31,244       |
| Total                        | \$583,511         | \$25,621    | \$8,100      | \$617,232    |

The cost basis of the Company's long-term marketable equity securities at June 30, 2013 is \$42.1 million, with a gross unrealized gain of \$1.4 million and a gross unrealized loss of \$0.5 million included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet. The cost basis of the Company's long-term marketable equity securities at December 31, 2012 is \$42.1 million, with a gross unrealized loss of \$10.8 million included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet. The Company evaluated the near term prospects of the issuer of the equity security with the unrealized loss in relation to the severity and duration of the unrealized loss and based on that evaluation and the Company's ability and intent to hold this security for a reasonable period of time sufficient for an expected recovery of fair value, the Company does not consider this security to be other-than-temporarily impaired at June 30, 2013.

The following tables present the changes in the Company's financial instruments that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

|                                               | Three Months Ended June 30, |               | 2012         |
|-----------------------------------------------|-----------------------------|---------------|--------------|
|                                               | 2013                        |               |              |
|                                               | Auction Rate                | Contingent    | Auction Rate |
|                                               | Security                    | Consideration | Security     |
|                                               |                             | Arrangement   |              |
|                                               | (In thousands)              |               |              |
| Balance at April 1                            | \$8,580                     | \$(42,295)    | ) \$7,720    |
| Total net gains (losses) (unrealized):        |                             |               |              |
| Included in earnings                          | —                           | (4,249)       | ) —          |
| Included in other comprehensive income (loss) | 180                         | (368)         | ) (990)      |
| Balance at June 30                            | \$8,760                     | \$(46,912)    | ) \$6,730    |

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

|                                               | Six Months Ended June 30,<br>2013 |                                            | 2012                     |                                            |
|-----------------------------------------------|-----------------------------------|--------------------------------------------|--------------------------|--------------------------------------------|
|                                               | Auction Rate<br>Security          | Contingent<br>Consideration<br>Arrangement | Auction Rate<br>Security | Contingent<br>Consideration<br>Arrangement |
|                                               | (In thousands)                    |                                            |                          |                                            |
| Balance at January 1                          | \$8,100                           | \$—                                        | \$5,870                  | \$(10,000 )                                |
| Total net gains (losses) (unrealized):        |                                   |                                            |                          |                                            |
| Included in earnings                          | —                                 | (5,707 )                                   | —                        | —                                          |
| Included in other comprehensive income (loss) | 660                               | (368 )                                     | 860                      | —                                          |
| Fair value at date of acquisition             | —                                 | (40,837 )                                  | —                        | —                                          |
| Settlements                                   | —                                 | —                                          | —                        | 10,000                                     |
| Balance at June 30                            | \$8,760                           | \$(46,912 )                                | \$6,730                  | \$—                                        |

There are no gains or losses included in earnings for the three and six months ended June 30, 2012 relating to the Company's financial instruments that are measured at fair value on a recurring basis using significant unobservable inputs.

## Auction rate security

The Company's auction rate security is valued by discounting the estimated future cash flow streams of the security over the life of the security. Credit spreads and other risk factors are also considered in establishing fair value. The cost basis of the auction rate security is \$10.0 million, with gross unrealized losses of \$1.2 million and \$1.9 million at June 30, 2013 and December 31, 2012, respectively. The unrealized losses are included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet. At June 30, 2013, the auction rate security is rated A-/WR and matures in 2035. The Company does not consider the auction rate security to be other-than-temporarily impaired at June 30, 2013, due to its high credit rating and because the Company does not intend to sell this security, and it is not more likely than not that the Company will be required to sell this security, before the recovery of its amortized cost basis, which may be maturity.

## Contingent Consideration Arrangement

The contingent consideration arrangement entered into in 2013 arose from the acquisition of Twoo (see Note 3 for additional information). The fair value of the contingent consideration arrangement was determined using a probability-weighted analysis, and reflects a discount rate of 15%, which captures the risks associated with the obligation. The probability-weighted analysis consists of the Company's multi-scenario forecasts of Twoo's earnings and the number of users of Twoo.com in accordance with the contingent consideration arrangement through December 31, 2015, and the Company's estimate of the probability of each scenario occurring. These multi-scenario forecasts and related probability assessments were based primarily on management's internal projections and strategic plans, with limited additional consideration given to growth trends of similarly situated businesses. The fair value of the contingent consideration arrangement is sensitive to changes in the discount rate and changes in the forecasts of earnings and website users. The Company remeasures the fair value of the contingent consideration arrangement each reporting period, and changes are recognized in "General and administrative expense" in the accompanying consolidated statement of operations. During the three and six months ended June 30, 2013, the fair value of the contingent consideration arrangement increased by \$4.2 million and \$5.7 million, respectively. The contingent consideration arrangement liability at June 30, 2013 includes a current portion of \$3.9 million and non-current portion of \$43.0 million, which are included in "Accrued expenses and other current liabilities" and "Other long-term liabilities," respectively, in the accompanying consolidated balance sheet.

## Assets measured at fair value on a nonrecurring basis

The Company's non-financial assets, such as goodwill, intangible assets and property and equipment, as well as equity and cost method investments, are adjusted to fair value only when an impairment charge is recognized. Such fair value

measurements are based predominantly on Level 3 inputs.

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## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

At June 30, 2013 and December 31, 2012, the carrying values of the Company's investments accounted for under the cost method totaled \$118.6 million and \$113.8 million, respectively, and are included in "Long-term investments" in the accompanying consolidated balance sheet. The Company evaluates each cost method investment for possible impairment on a quarterly basis and determines the fair value if indicators of impairment are deemed to be present; the Company recognizes an impairment loss if a decline in value is determined to be other-than-temporary. If the Company has not identified events or changes in circumstances that may have a significant adverse effect on the fair value of a cost method investment, then the fair value of such cost method investment is not estimated, as it is impracticable to do so.

Financial instruments measured at fair value only for disclosure purposes

The following table presents the carrying value and the fair value of financial instruments measured at fair value only for disclosure purposes:

|                                           | June 30, 2013  |            | December 31, 2012 |             |
|-------------------------------------------|----------------|------------|-------------------|-------------|
|                                           | Carrying Value | Fair Value | Carrying Value    | Fair Value  |
|                                           | (In thousands) |            |                   |             |
| Current maturities of long-term debt      | \$—            | \$—        | \$(15,844 )       | \$(15,875 ) |
| Long-term debt, net of current maturities | (580,000 )     | (554,419 ) | (580,000 )        | (581,994 )  |

The fair value of long-term debt, including current maturities, is estimated using market prices or indices for similar liabilities and taking into consideration other factors such as credit quality and maturity, which are Level 3 inputs.

## NOTE 6—LONG-TERM DEBT

The balance of long-term debt is comprised of:

|                                                                                                                                   | June 30, 2013  | December 31, 2012 |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|
|                                                                                                                                   | (In thousands) |                   |
| 7.00% Senior Notes due January 15, 2013 (the "2002 Senior Notes"); interest payable each January 15 and July 15                   | \$—            | \$15,844          |
| 4.75% Senior Notes due December 15, 2022 (the "2012 Senior Notes"); interest payable each June 15 and December 15                 | 500,000        | 500,000           |
| 5% New York City Industrial Development Agency Liberty Bonds due September 1, 2035; interest payable each March 1 and September 1 | 80,000         | 80,000            |
| Total long-term debt                                                                                                              | 580,000        | 595,844           |
| Less current maturities                                                                                                           | —              | (15,844 )         |
| Long-term debt, net of current maturities                                                                                         | \$580,000      | \$580,000         |

On December 21, 2012, the Company issued \$500.0 million aggregate principal amount of 4.75% Senior Notes due December 15, 2022. The 2012 Senior Notes were issued at par. Certain domestic subsidiaries have unconditionally guaranteed the 2012 Senior Notes. See Note 13 for guarantor and non-guarantor financial information.

The indenture governing the 2012 Senior Notes contains covenants that would limit our ability to pay dividends or make other distributions and repurchase or redeem our stock in the event a default has occurred or we are not in compliance with the financial ratio set forth in the indenture. At June 30, 2013, the Company was in compliance with these covenants and there were no limitations pursuant thereto. There are additional covenants that limit our ability and the ability of our subsidiaries to, among other things, (i) incur indebtedness, make investments, or sell assets in the event we are not in compliance with the financial ratio set forth in the indenture, and (ii) incur liens, enter into agreements restricting our subsidiaries' ability to pay dividends, enter into transactions with affiliates and consolidate, merge or sell all or substantially all of our assets.

On December 21, 2012, the Company entered into a \$300.0 million revolving credit facility, which expires on December 21, 2017. The annual fee to maintain the revolving credit facility is currently 25 basis points. At June 30,

2013 and December 31, 2012, there were no outstanding borrowings under the revolving credit facility. IAC's obligation under the

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

revolving credit facility is unconditionally guaranteed by certain domestic subsidiaries and is also secured by the stock of certain of our domestic and foreign subsidiaries.

## NOTE 7—ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables present the components of accumulated other comprehensive loss and items reclassified out of accumulated other comprehensive loss into earnings:

| Three Months Ended June 30, 2013                               |                                                                    |                                                                     |                                                        |
|----------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------------|--------------------------------------------------------|
|                                                                | Foreign<br>Currency<br>Translation<br>Adjustment<br>(In thousands) | Unrealized<br>(Losses) Gains On<br>Available-For-Sale<br>Securities | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income |
| Balance at April 1                                             | \$(32,024 )                                                        | \$ (12,072 )                                                        | \$(44,096 )                                            |
| Other comprehensive (loss) income before reclassifications     | (5,278 )                                                           | 17,187                                                              | 11,909                                                 |
| Amounts reclassified from accumulated other comprehensive loss | —                                                                  | —                                                                   | —                                                      |
| Net current period other comprehensive (loss) income           | (5,278 )                                                           | 17,187                                                              | 11,909                                                 |
| Balance at June 30                                             | \$(37,302 )                                                        | \$ 5,115                                                            | \$(32,187 )                                            |
| Six Months Ended June 30, 2013                                 |                                                                    |                                                                     |                                                        |
|                                                                | Foreign<br>Currency<br>Translation<br>Adjustment<br>(In thousands) | Unrealized<br>(Losses) Gains On<br>Available-For-Sale<br>Securities | Accumulated<br>Other<br>Comprehensive<br>Loss          |
| Balance at January 1                                           | \$(25,073 )                                                        | \$ (7,096 )                                                         | \$(32,169 )                                            |
| Other comprehensive (loss) income before reclassifications     | (12,229 )                                                          | 12,212                                                              | (17 )                                                  |
| Amounts reclassified from accumulated other comprehensive loss | —                                                                  | (1 )                                                                | (1 )                                                   |
| Net current period other comprehensive (loss) income           | (12,229 )                                                          | 12,211                                                              | (18 )                                                  |
| Balance at June 30                                             | \$(37,302 )                                                        | \$ 5,115                                                            | \$(32,187 )                                            |

Unrealized gains, net of tax, reclassified out of accumulated other comprehensive loss related to the maturities and sales of available-for-sale securities are included in "Other (expense) income, net" in the accompanying consolidated statement of operations. Unrealized gains, net of tax, reclassified out of accumulated other comprehensive loss into other (expense) income, net for the three and six months ended June 30, 2012 were less than \$0.1 million and \$0.7 million, respectively.

## NOTE 8—EARNINGS PER SHARE

The following tables set forth the computation of basic and diluted earnings per share attributable to IAC shareholders.

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

|                                                                                  | Three Months Ended June 30,           |           |          |          |
|----------------------------------------------------------------------------------|---------------------------------------|-----------|----------|----------|
|                                                                                  | 2013                                  |           | 2012     |          |
|                                                                                  | Basic                                 | Diluted   | Basic    | Diluted  |
|                                                                                  | (In thousands, except per share data) |           |          |          |
| Numerator:                                                                       |                                       |           |          |          |
| Earnings from continuing operations                                              | \$58,540                              | \$58,540  | \$48,101 | \$48,101 |
| Net loss (earnings) attributable to noncontrolling interests                     | 818                                   | 818       | (128)    | (128)    |
| Earnings from continuing operations attributable to IAC shareholders             | 59,358                                | 59,358    | 47,973   | 47,973   |
| Loss from discontinued operations attributable to IAC shareholders               | (1,068)                               | (1,068)   | (4,641)  | (4,641)  |
| Net earnings attributable to IAC shareholders                                    | \$58,290                              | \$58,290  | \$43,332 | \$43,332 |
| Denominator:                                                                     |                                       |           |          |          |
| Weighted average basic shares outstanding                                        | 83,609                                | 83,609    | 86,174   | 86,174   |
| Dilutive securities including stock options, warrants and RSUs <sup>(a)(b)</sup> | —                                     | 2,954     | —        | 5,766    |
| Denominator for earnings per share—weighted average shares <sup>(a)(b)</sup>     | 83,609                                | 86,563    | 86,174   | 91,940   |
| Earnings (loss) per share attributable to IAC shareholders:                      |                                       |           |          |          |
| Earnings per share from continuing operations                                    | \$0.71                                | \$0.69    | \$0.56   | \$0.52   |
| Discontinued operations                                                          | (0.01)                                | (0.02)    | (0.06)   | (0.05)   |
| Earnings per share                                                               | \$0.70                                | \$0.67    | \$0.50   | \$0.47   |
|                                                                                  | Six Months Ended June 30,             |           |          |          |
|                                                                                  | 2013                                  |           | 2012     |          |
|                                                                                  | Basic                                 | Diluted   | Basic    | Diluted  |
|                                                                                  | (In thousands, except per share data) |           |          |          |
| Numerator:                                                                       |                                       |           |          |          |
| Earnings from continuing operations                                              | \$111,249                             | \$111,249 | \$79,254 | \$79,254 |
| Net loss (earnings) attributable to noncontrolling interests                     | 2,690                                 | 2,690     | (487)    | (487)    |
| Earnings from continuing operations attributable to IAC shareholders             | 113,939                               | 113,939   | 78,767   | 78,767   |
| Loss from discontinued operations attributable to IAC shareholders               | (2,012)                               | (2,012)   | (957)    | (957)    |
| Net earnings attributable to IAC shareholders                                    | \$111,927                             | \$111,927 | \$77,810 | \$77,810 |
| Denominator:                                                                     |                                       |           |          |          |
| Weighted average basic shares outstanding                                        | 83,912                                | 83,912    | 84,487   | 84,487   |
| Dilutive securities including stock options, warrants and RSUs <sup>(a)(b)</sup> | —                                     | 3,058     | —        | 7,342    |
| Denominator for earnings per share—weighted average shares <sup>(a)(b)</sup>     | 83,912                                | 86,970    | 84,487   | 91,829   |
| Earnings (loss) per share attributable to IAC shareholders:                      |                                       |           |          |          |
| Earnings per share from continuing operations                                    | \$1.36                                | \$1.31    | \$0.93   | \$0.86   |

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|                         |        |   |        |   |        |   |        |   |
|-------------------------|--------|---|--------|---|--------|---|--------|---|
| Discontinued operations | (0.03  | ) | (0.02  | ) | (0.01  | ) | (0.01  | ) |
| Earnings per share      | \$1.33 |   | \$1.29 |   | \$0.92 |   | \$0.85 |   |

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## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

If the effect is dilutive, weighted average common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options and warrants and vesting of restricted stock units ("RSUs"). As of May 8, 2012, there are no warrants outstanding. For the three and six months ended June 30, 2013, approximately 0.7 million and 3.8 million shares, respectively, related to potentially dilutive securities are excluded (a) from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. For both the three and six months ended June 30, 2012, approximately 0.6 million shares related to potentially dilutive securities are excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

Performance-based stock units ("PSUs") are included in the denominator for earnings per share if (1) the applicable performance condition(s) has been met and (2) the inclusion of the PSUs is dilutive for the respective reporting periods. For the three and six months ended June 30, 2013, approximately 0.1 million PSUs that are probable of (b) vesting were excluded from the calculation of diluted earnings per share because the performance conditions had not been met. For the three and six months ended June 30, 2012, approximately 3.0 million PSUs that were probable of vesting were excluded from the calculation of diluted earnings per share because the performance conditions had not been met.

## NOTE 9—SEGMENT INFORMATION

The overall concept that IAC employs in determining its operating segments is to present the financial information in a manner consistent with how the chief operating decision maker views the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of services or products offered or the target market. Operating segments are combined for reporting purposes if they meet certain aggregation criteria, which principally relate to the similarity of their economic characteristics or, in the case of Other, do not meet the quantitative thresholds that require presentation as separate operating segments.

|                           | Three Months Ended June 30, |           | Six Months Ended June 30, |             |
|---------------------------|-----------------------------|-----------|---------------------------|-------------|
|                           | 2013                        | 2012      | 2013                      | 2012        |
|                           | (In thousands)              |           |                           |             |
| Revenue:                  |                             |           |                           |             |
| Search & Applications     | \$427,449                   | \$348,762 | \$824,641                 | \$691,960   |
| Match                     | 194,320                     | 178,418   | 383,182                   | 352,693     |
| Local                     | 84,734                      | 84,505    | 159,679                   | 161,624     |
| Media                     | 58,014                      | 38,368    | 103,329                   | 54,279      |
| Other                     | 35,005                      | 30,629    | 71,050                    | 60,835      |
| Inter-segment elimination | (111)                       | (70)      | (221)                     | (179)       |
| Total                     | \$799,411                   | \$680,612 | \$1,541,660               | \$1,321,212 |
|                           | Three Months Ended June 30, |           | Six Months Ended June 30, |             |
|                           | 2013                        | 2012      | 2013                      | 2012        |
|                           | (In thousands)              |           |                           |             |
| Operating Income (Loss):  |                             |           |                           |             |
| Search & Applications     | \$89,346                    | \$74,067  | \$176,329                 | \$147,557   |
| Match                     | 58,387                      | 57,099    | 99,346                    | 87,005      |
| Local                     | (3,958)                     | 11,670    | (7,361)                   | 15,459      |
| Media                     | (4,028)                     | (7,305)   | (12,856)                  | (13,974)    |
| Other                     | (4,097)                     | (2,182)   | (7,319)                   | (3,896)     |
| Corporate                 | (28,954)                    | (35,873)  | (56,892)                  | (71,910)    |
| Total                     | \$106,696                   | \$97,476  | \$191,247                 | \$160,241   |



## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

|                                       | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|---------------------------------------|-----------------------------|-----------|---------------------------|-----------|
|                                       | 2013                        | 2012      | 2013                      | 2012      |
|                                       | (In thousands)              |           |                           |           |
| Operating Income Before Amortization: |                             |           |                           |           |
| Search & Applications                 | \$96,007                    | \$74,079  | \$189,656                 | \$147,579 |
| Match                                 | 67,608                      | 62,645    | 113,911                   | 99,973    |
| Local                                 | 1,968                       | 11,832    | 967                       | 15,782    |
| Media                                 | (3,522)                     | (6,789)   | (11,896)                  | (13,190)  |
| Other                                 | (3,418)                     | (1,755)   | (5,917)                   | (3,153)   |
| Corporate                             | (17,741)                    | (16,290)  | (33,069)                  | (31,997)  |
| Total                                 | \$140,902                   | \$123,722 | \$253,652                 | \$214,994 |
|                                       | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|                                       | 2013                        | 2012      | 2013                      | 2012      |
|                                       | (In thousands)              |           |                           |           |
| Depreciation:                         |                             |           |                           |           |
| Search & Applications                 | \$6,413                     | \$3,385   | \$10,278                  | \$6,676   |
| Match                                 | 4,776                       | 3,742     | 9,453                     | 7,279     |
| Local                                 | 2,707                       | 2,475     | 5,053                     | 5,276     |
| Media                                 | 524                         | 295       | 1,047                     | 474       |
| Other                                 | 348                         | 257       | 650                       | 501       |
| Corporate                             | 2,268                       | 2,071     | 4,571                     | 4,134     |
| Total                                 | \$17,036                    | \$12,225  | \$31,052                  | \$24,340  |

Revenue by geography is based on where the customer is located. Geographic information about revenue and long-lived assets is presented below:

|                     | Three Months Ended June 30, |           | Six Months Ended June 30, |             |
|---------------------|-----------------------------|-----------|---------------------------|-------------|
|                     | 2013                        | 2012      | 2013                      | 2012        |
|                     | (In thousands)              |           |                           |             |
| Revenue:            |                             |           |                           |             |
| United States       | \$551,880                   | \$472,553 | \$1,066,494               | \$918,213   |
| All other countries | 247,531                     | 208,059   | 475,166                   | 402,999     |
| Total               | \$799,411                   | \$680,612 | \$1,541,660               | \$1,321,212 |

|                                                               | June 30, 2013  | December 31, 2012 |
|---------------------------------------------------------------|----------------|-------------------|
|                                                               | (In thousands) |                   |
| Long-lived assets (excluding goodwill and intangible assets): |                |                   |
| United States                                                 | \$267,861      | \$251,379         |
| All other countries                                           | 21,632         | 19,133            |
| Total                                                         | \$289,493      | \$270,512         |

The Company's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization and impairment of intangibles, (3) goodwill impairment, (4) acquisition-related contingent consideration fair value adjustments and (5) one-time items. The Company believes this measure is useful to investors because it represents the consolidated operating results from IAC's segments, taking



## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to IAC's statement of operations of certain expenses, including non-cash compensation and acquisition-related accounting. IAC endeavors to compensate for the limitations of the non-U.S. GAAP measure presented by providing the comparable U.S. GAAP measure with equal or greater prominence, financial statements prepared in accordance with U.S. GAAP, and descriptions of the reconciling items, including quantifying such items, to derive the non-U.S. GAAP measure.

The following tables reconcile Operating Income Before Amortization to operating income (loss) for the Company's reportable segments:

## Three Months Ended June 30, 2013

|                       | Operating<br>Income<br>Before<br>Amortization | Non-Cash<br>Compensation<br>Expense | Amortization<br>of Intangibles | Acquisition-related<br>Contingent<br>Consideration<br>Fair Value<br>Adjustment | Operating<br>Income<br>(Loss) |
|-----------------------|-----------------------------------------------|-------------------------------------|--------------------------------|--------------------------------------------------------------------------------|-------------------------------|
| (In thousands)        |                                               |                                     |                                |                                                                                |                               |
| Search & Applications | \$96,007                                      | \$—                                 | \$(6,661)                      | \$ —                                                                           | \$89,346                      |
| Match                 | 67,608                                        | (363)                               | (4,609)                        | (4,249)                                                                        | 58,387                        |
| Local                 | 1,968                                         | —                                   | (5,926)                        | —                                                                              | (3,958)                       |
| Media                 | (3,522)                                       | (213)                               | (293)                          | —                                                                              | (4,028)                       |
| Other                 | (3,418)                                       | (31)                                | (648)                          | —                                                                              | (4,097)                       |
| Corporate             | (17,741)                                      | (11,213)                            | —                              | —                                                                              | (28,954)                      |
| Total                 | \$140,902                                     | \$(11,820)                          | \$(18,137)                     | \$ (4,249)                                                                     | \$106,696                     |

## Three Months Ended June 30, 2012

|                       | Operating<br>Income Before<br>Amortization | Non-Cash<br>Compensation<br>Expense | Amortization<br>of Intangibles | Operating<br>Income<br>(Loss) |
|-----------------------|--------------------------------------------|-------------------------------------|--------------------------------|-------------------------------|
| (In thousands)        |                                            |                                     |                                |                               |
| Search & Applications | \$74,079                                   | \$ (9)                              | \$ (3)                         | \$74,067                      |
| Match                 | 62,645                                     | (556)                               | (4,990)                        | 57,099                        |
| Local                 | 11,832                                     | —                                   | (162)                          | 11,670                        |
| Media                 | (6,789)                                    | (236)                               | (280)                          | (7,305)                       |
| Other                 | (1,755)                                    | (57)                                | (370)                          | (2,182)                       |
| Corporate             | (16,290)                                   | (19,583)                            | —                              | (35,873)                      |
| Total                 | \$123,722                                  | \$(20,441)                          | \$(5,805)                      | \$97,476                      |

## Six Months Ended June 30, 2013

|                       | Operating<br>Income<br>Before<br>Amortization | Non-Cash<br>Compensation<br>Expense | Amortization<br>of Intangibles | Acquisition-related<br>Contingent<br>Consideration<br>Fair Value<br>Adjustment | Operating<br>Income<br>(Loss) |
|-----------------------|-----------------------------------------------|-------------------------------------|--------------------------------|--------------------------------------------------------------------------------|-------------------------------|
| (In thousands)        |                                               |                                     |                                |                                                                                |                               |
| Search & Applications | \$189,656                                     | \$ (3)                              | \$(13,324)                     | \$ —                                                                           | \$176,329                     |
| Match                 | 113,911                                       | (206)                               | (8,652)                        | (5,707)                                                                        | 99,346                        |
| Local                 | 967                                           | —                                   | (8,328)                        | —                                                                              | (7,361)                       |

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|           |           |            |              |             |         |           |
|-----------|-----------|------------|--------------|-------------|---------|-----------|
| Media     | (11,896   | ) (418     | ) (542       | ) —         | (12,856 | )         |
| Other     | (5,917    | ) (33      | ) (1,369     | ) —         | (7,319  | )         |
| Corporate | (33,069   | ) (23,823  | ) —          | —           | (56,892 | )         |
| Total     | \$253,652 | \$ (24,483 | ) \$ (32,215 | ) \$ (5,707 | )       | \$191,247 |

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## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

|                       | Six Months Ended June 30, 2012                               |                                     |                                |                               |
|-----------------------|--------------------------------------------------------------|-------------------------------------|--------------------------------|-------------------------------|
|                       | Operating<br>Income Before<br>Amortization<br>(In thousands) | Non-Cash<br>Compensation<br>Expense | Amortization<br>of Intangibles | Operating<br>Income<br>(Loss) |
| Search & Applications | \$147,579                                                    | \$(17                               | ) \$(5                         | ) \$147,557                   |
| Match                 | 99,973                                                       | (1,463                              | ) (11,505                      | ) 87,005                      |
| Local                 | 15,782                                                       | —                                   | (323                           | ) 15,459                      |
| Media                 | (13,190                                                      | ) (504                              | ) (280                         | ) (13,974                     |
| Other                 | (3,153                                                       | ) (10                               | ) (733                         | ) (3,896                      |
| Corporate             | (31,997                                                      | ) (39,913                           | ) —                            | (71,910                       |
| Total                 | \$214,994                                                    | \$(41,907                           | ) \$(12,846                    | ) \$160,241                   |

## NOTE 10—CONSOLIDATED FINANCIAL STATEMENT DETAILS

|                                             | June 30, 2013  | December 31, 2012 |
|---------------------------------------------|----------------|-------------------|
|                                             | (In thousands) |                   |
| Property and equipment, net:                |                |                   |
| Buildings and leasehold improvements        | \$246,158      | \$238,652         |
| Computer equipment and capitalized software | 203,443        | 197,402           |
| Furniture and other equipment               | 44,227         | 42,949            |
| Projects in progress                        | 36,004         | 19,303            |
| Land                                        | 5,117          | 5,117             |
|                                             | 534,949        | 503,423           |
| Accumulated depreciation and amortization   | (245,456 )     | (232,911 )        |
| Property and equipment, net                 | \$289,493      | \$270,512         |

## NOTE 11—SUPPLEMENTAL CASH FLOW INFORMATION

The consideration for the acquisition of Twoo on January 4, 2013 includes a contingent consideration arrangement, which is described in Note 3 and Note 5.

## NOTE 12—CONTINGENCIES

In the ordinary course of business, the Company is a party to various lawsuits. The Company establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where we believe an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that resolving claims against us, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of the Company, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. The Company also evaluates other contingent matters, including income and non-income tax contingencies, to assess the likelihood of an unfavorable outcome and estimated extent of potential loss. It is possible that an unfavorable outcome of one or more of these lawsuits or other contingencies could have a material impact on the liquidity, results of operations, or financial condition of the Company. See Note 2 for additional information related to income tax contingencies.

## NOTE 13—GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The 2012 Senior Notes are unconditionally guaranteed, jointly and severally, by certain domestic subsidiaries which are 100% owned by the Company. The following tables present condensed consolidating financial information at June 30, 2013 and December 31, 2012 and for the three and six months ended June 30, 2013 and 2012 for: IAC, on a stand-alone basis; the combined guarantor subsidiaries of IAC; the combined non-guarantor subsidiaries of IAC; and IAC on a consolidated basis.

Balance sheet at June 30, 2013:

|                                            | IAC            | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Total<br>Eliminations | IAC<br>Consolidated |
|--------------------------------------------|----------------|---------------------------|-------------------------------|-----------------------|---------------------|
|                                            | (In thousands) |                           |                               |                       |                     |
| Cash and cash equivalents                  | \$413,467      | \$—                       | \$ 265,258                    | \$—                   | \$678,725           |
| Marketable securities                      | 7,775          | —                         | —                             | —                     | 7,775               |
| Accounts receivable, net                   | 11             | 151,153                   | 84,786                        | —                     | 235,950             |
| Other current assets                       | 26,226         | 66,061                    | 52,875                        | 3,123                 | 148,285             |
| Intercompany receivables                   | —              | 415,915                   | 1,768,667                     | (2,184,582 )          | —                   |
| Property and equipment, net                | 4,378          | 214,744                   | 70,371                        | —                     | 289,493             |
| Goodwill                                   | —              | 1,179,578                 | 484,737                       | —                     | 1,664,315           |
| Intangible assets, net                     | —              | 319,251                   | 146,910                       | —                     | 466,161             |
| Investment in subsidiaries                 | 4,377,565      | 676,168                   | —                             | (5,053,733 )          | —                   |
| Other non-current assets                   | 181,304        | 18,071                    | 122,358                       | 54                    | 321,787             |
| Total assets                               | \$5,010,726    | \$3,040,941               | \$ 2,995,962                  | \$(7,235,138 )        | \$3,812,491         |
| Accounts payable, trade                    | \$1,543        | \$45,858                  | \$ 35,893                     | \$—                   | \$83,294            |
| Other current liabilities                  | 38,823         | 263,956                   | 239,449                       | (14,866 )             | 527,362             |
| Long-term debt, net of current maturities  | 500,000        | 80,000                    | —                             | —                     | 580,000             |
| Income taxes payable                       | 440,261        | 25,422                    | 12,270                        | 18,215                | 496,168             |
| Intercompany liabilities                   | 2,184,582      | —                         | —                             | (2,184,582 )          | —                   |
| Other long-term liabilities                | 214,212        | 81,475                    | 83,471                        | (172 )                | 378,986             |
| Redeemable noncontrolling interests        | —              | —                         | 64,147                        | —                     | 64,147              |
| IAC shareholders' equity                   | 1,631,305      | 2,544,230                 | 2,509,503                     | (5,053,733 )          | 1,631,305           |
| Noncontrolling interests                   | —              | —                         | 51,229                        | —                     | 51,229              |
| Total liabilities and shareholders' equity | \$5,010,726    | \$3,040,941               | \$ 2,995,962                  | \$(7,235,138 )        | \$3,812,491         |

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Balance sheet at December 31, 2012:

|                                            | IAC            | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Total<br>Eliminations | IAC<br>Consolidated |
|--------------------------------------------|----------------|---------------------------|-------------------------------|-----------------------|---------------------|
|                                            | (In thousands) |                           |                               |                       |                     |
| Cash and cash equivalents                  | \$501,075      | \$—                       | \$ 248,902                    | \$—                   | \$749,977           |
| Marketable securities                      | 20,604         | —                         | —                             | —                     | 20,604              |
| Accounts receivable, net                   | 43             | 142,627                   | 87,160                        | —                     | 229,830             |
| Other current assets                       | 58,452         | 53,720                    | 45,204                        | (1,037 )              | 156,339             |
| Intercompany receivables                   | —              | 482,926                   | 10,276,178                    | (10,759,104 )         | —                   |
| Property and equipment, net                | 4,116          | 194,515                   | 71,881                        | —                     | 270,512             |
| Goodwill                                   | —              | 1,190,199                 | 425,955                       | —                     | 1,616,154           |
| Intangible assets, net                     | —              | 340,631                   | 142,273                       | —                     | 482,904             |
| Investment in subsidiaries                 | 12,913,694     | 611,851                   | —                             | (13,525,545 )         | —                   |
| Other non-current assets                   | 153,155        | 16,509                    | 109,912                       | (68 )                 | 279,508             |
| Total assets                               | \$13,651,139   | \$3,032,978               | \$ 11,407,465                 | \$(24,285,754)        | \$3,805,828         |
| Accounts payable, trade                    | \$4,366        | \$64,888                  | \$ 29,060                     | \$—                   | \$98,314            |
| Other current liabilities                  | 74,214         | 216,010                   | 238,003                       | (1,652 )              | 526,575             |
| Long-term debt, net of current maturities  | 500,000        | 80,000                    | —                             | —                     | 580,000             |
| Income taxes payable                       | 440,110        | 26,389                    | 13,446                        | —                     | 479,945             |
| Intercompany liabilities                   | 10,759,104     | —                         | —                             | (10,759,104 )         | —                   |
| Other long-term liabilities                | 217,617        | 91,119                    | 45,950                        | 547                   | 355,233             |
| Redeemable noncontrolling interests        | —              | 1,388                     | 56,738                        | —                     | 58,126              |
| IAC shareholders' equity                   | 1,655,728      | 2,553,184                 | 10,972,361                    | (13,525,545 )         | 1,655,728           |
| Noncontrolling interests                   | —              | —                         | 51,907                        | —                     | 51,907              |
| Total liabilities and shareholders' equity | \$13,651,139   | \$3,032,978               | \$ 11,407,465                 | \$(24,285,754)        | \$3,805,828         |

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## Statement of operations for the three months ended June 30, 2013:

|                                                                    | IAC<br>(In thousands) | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Total<br>Eliminations | IAC<br>Consolidated |   |
|--------------------------------------------------------------------|-----------------------|---------------------------|-------------------------------|-----------------------|---------------------|---|
| Revenue                                                            | \$—                   | \$553,406                 | \$247,164                     | \$(1,159              | ) \$799,411         |   |
| Costs and expenses:                                                |                       |                           |                               |                       |                     |   |
| Cost of revenue (exclusive of depreciation shown separately below) | 549                   | 156,703                   | 116,570                       | (1,000                | ) 272,822           |   |
| Selling and marketing expense                                      | 710                   | 187,543                   | 59,052                        | (152                  | ) 247,153           |   |
| General and administrative expense                                 | 23,582                | 44,015                    | 35,925                        | (7                    | ) 103,515           |   |
| Product development expense                                        | 867                   | 23,284                    | 9,901                         | —                     | 34,052              |   |
| Depreciation                                                       | 344                   | 11,380                    | 5,312                         | —                     | 17,036              |   |
| Amortization of intangibles                                        | —                     | 12,157                    | 5,980                         | —                     | 18,137              |   |
| Total costs and expenses                                           | 26,052                | 435,082                   | 232,740                       | (1,159                | ) 692,715           |   |
| Operating (loss) income                                            | (26,052               | ) 118,324                 | 14,424                        | —                     | 106,696             |   |
| Equity in earnings (losses) of unconsolidated affiliates           | 75,927                | 8,540                     | (132                          | ) (85,413             | ) (1,078            | ) |
| Interest expense                                                   | (6,515                | ) (1,078                  | ) (65                         | ) —                   | (7,658              | ) |
| Other income (expense), net                                        | 3,109                 | (9,627                    | ) 6,514                       | —                     | (4                  | ) |
| Earnings from continuing operations before income taxes            | 46,469                | 116,159                   | 20,741                        | (85,413               | ) 97,956            |   |
| Income tax benefit (provision)                                     | 12,889                | (41,871                   | ) (10,434                     | ) —                   | (39,416             | ) |
| Earnings from continuing operations                                | 59,358                | 74,288                    | 10,307                        | (85,413               | ) 58,540            |   |
| (Loss) earnings from discontinued operations, net of tax           | (1,068                | ) —                       | 4                             | (4                    | ) (1,068            | ) |
| Net earnings                                                       | 58,290                | 74,288                    | 10,311                        | (85,417               | ) 57,472            |   |
| Net loss attributable to noncontrolling interests                  | —                     | 404                       | 414                           | —                     | 818                 |   |
| Net earnings attributable to IAC shareholders                      | \$58,290              | \$74,692                  | \$10,725                      | \$(85,417             | ) \$58,290          |   |
| Comprehensive income attributable to IAC shareholders              | \$70,199              | \$74,628                  | \$5,227                       | \$(79,855             | ) \$70,199          |   |

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Statement of operations for the three months ended June 30, 2012:

|                                                                    | IAC<br>(In thousands) | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Total<br>Eliminations | IAC<br>Consolidated |
|--------------------------------------------------------------------|-----------------------|---------------------------|-------------------------------|-----------------------|---------------------|
| Revenue                                                            | \$—                   | \$473,580                 | \$208,759                     | \$(1,727)             | ) \$680,612         |
| Costs and expenses:                                                |                       |                           |                               |                       |                     |
| Cost of revenue (exclusive of depreciation shown separately below) | 1,299                 | 136,869                   | 100,489                       | (1,353)               | ) 237,304           |
| Selling and marketing expense                                      | 869                   | 160,409                   | 50,353                        | (379)                 | ) 211,252           |
| General and administrative expense                                 | 28,721                | 35,333                    | 25,580                        | 5                     | 89,639              |
| Product development expense                                        | 1,447                 | 18,514                    | 6,950                         | —                     | 26,911              |
| Depreciation                                                       | 145                   | 8,673                     | 3,407                         | —                     | 12,225              |
| Amortization of intangibles                                        | —                     | 596                       | 5,209                         | —                     | 5,805               |
| Total costs and expenses                                           | 32,481                | 360,394                   | 191,988                       | (1,727)               | ) 583,136           |
| Operating (loss) income                                            | (32,481)              | ) 113,186                 | 16,771                        | —                     | 97,476              |
| Equity in earnings (losses) of unconsolidated affiliates           | 108,333               | 14,025                    | (18,659)                      | ) (122,708)           | ) (19,009)          |
| Interest expense                                                   | (277)                 | ) (1,065)                 | ) (22)                        | ) —                   | (1,364)             |
| Other (expense) income, net                                        | (104,077)             | ) (3,072)                 | ) 106,781                     | —                     | (368)               |
| (Loss) earnings from continuing operations before income taxes     | (28,502)              | ) 123,074                 | 104,871                       | (122,708)             | ) 76,735            |
| Income tax benefit (provision)                                     | 76,475                | (38,459)                  | ) (66,650)                    | ) —                   | (28,634)            |
| Earnings from continuing operations                                | 47,973                | 84,615                    | 38,221                        | (122,708)             | ) 48,101            |
| (Loss) earnings from discontinued operations, net of tax           | (4,641)               | ) —                       | 718                           | (718)                 | ) (4,641)           |
| Net earnings                                                       | 43,332                | 84,615                    | 38,939                        | (123,426)             | ) 43,460            |
| Net loss (earnings) attributable to noncontrolling interests       | —                     | 21                        | (149)                         | ) —                   | (128)               |
| Net earnings attributable to IAC shareholders                      | \$43,332              | \$84,636                  | \$38,790                      | \$(123,426)           | ) \$43,332          |
| Comprehensive income attributable to IAC shareholders              | \$9,319               | \$84,400                  | \$16,287                      | \$(100,687)           | ) \$9,319           |

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## Statement of operations for the six months ended June 30, 2013:

|                                                                    | IAC<br>(In thousands) | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Total<br>Eliminations | IAC<br>Consolidated |
|--------------------------------------------------------------------|-----------------------|---------------------------|-------------------------------|-----------------------|---------------------|
| Revenue                                                            | \$—                   | \$1,069,190               | \$474,666                     | \$(2,196)             | ) \$1,541,660       |
| Costs and expenses:                                                |                       |                           |                               |                       |                     |
| Cost of revenue (exclusive of depreciation shown separately below) | 1,226                 | 310,375                   | 218,849                       | (1,779)               | ) 528,671           |
| Selling and marketing expense                                      | 1,141                 | 358,210                   | 131,125                       | (409)                 | ) 490,067           |
| General and administrative expense                                 | 45,827                | 84,167                    | 69,253                        | (8)                   | ) 199,239           |
| Product development expense                                        | 1,766                 | 46,098                    | 21,305                        | —                     | 69,169              |
| Depreciation                                                       | 711                   | 20,381                    | 9,960                         | —                     | 31,052              |
| Amortization of intangibles                                        | —                     | 21,067                    | 11,148                        | —                     | 32,215              |
| Total costs and expenses                                           | 50,671                | 840,298                   | 461,640                       | (2,196)               | ) 1,350,413         |
| Operating (loss) income                                            | (50,671)              | ) 228,892                 | 13,026                        | —                     | 191,247             |
| Equity in earnings (losses) of unconsolidated affiliates           | 190,477               | 11,311                    | (223)                         | ) (202,734)           | ) (1,169)           |
| Interest expense                                                   | (13,072)              | ) (2,143)                 | ) (106)                       | ) —                   | (15,321)            |
| Other (expense) income, net                                        | (52,339)              | ) (28,357)                | ) 82,350                      | —                     | 1,654               |
| Earnings from continuing operations before income taxes            | 74,395                | 209,703                   | 95,047                        | (202,734)             | ) 176,411           |
| Income tax benefit (provision)                                     | 39,544                | (75,454)                  | ) (29,252)                    | ) —                   | (65,162)            |
| Earnings from continuing operations                                | 113,939               | 134,249                   | 65,795                        | (202,734)             | ) 111,249           |
| (Loss) earnings from discontinued operations, net of tax           | (2,012)               | ) —                       | 11                            | (11)                  | ) (2,012)           |
| Net earnings                                                       | 111,927               | 134,249                   | 65,806                        | (202,745)             | ) 109,237           |
| Net loss attributable to noncontrolling interests                  | —                     | 412                       | 2,278                         | —                     | 2,690               |
| Net earnings attributable to IAC shareholders                      | \$111,927             | \$134,661                 | \$68,084                      | \$(202,745)           | ) \$111,927         |
| Comprehensive income attributable to IAC shareholders              | \$111,909             | \$134,523                 | \$46,494                      | \$(181,017)           | ) \$111,909         |

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## Statement of operations for the six months ended June 30, 2012:

|                                                                    | IAC<br>(In thousands) | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Total<br>Eliminations | IAC<br>Consolidated |
|--------------------------------------------------------------------|-----------------------|---------------------------|-------------------------------|-----------------------|---------------------|
| Revenue                                                            | \$—                   | \$933,251                 | \$391,011                     | \$(3,050)             | ) \$1,321,212       |
| Costs and expenses:                                                |                       |                           |                               |                       |                     |
| Cost of revenue (exclusive of depreciation shown separately below) | 2,693                 | 278,845                   | 181,389                       | (2,323)               | ) 460,604           |
| Selling and marketing expense                                      | 1,772                 | 319,751                   | 109,258                       | (743)                 | ) 430,038           |
| General and administrative expense                                 | 58,060                | 71,117                    | 48,918                        | 16                    | 178,111             |
| Product development expense                                        | 2,823                 | 38,965                    | 13,244                        | —                     | 55,032              |
| Depreciation                                                       | 292                   | 17,643                    | 6,405                         | —                     | 24,340              |
| Amortization of intangibles                                        | —                     | 1,226                     | 11,620                        | —                     | 12,846              |
| Total costs and expenses                                           | 65,640                | 727,547                   | 370,834                       | (3,050)               | ) 1,160,971         |
| Operating (loss) income                                            | (65,640)              | ) 205,704                 | 20,177                        | —                     | 160,241             |
| Equity in earnings (losses) of unconsolidated affiliates           | 206,198               | 18,185                    | (22,712)                      | ) (226,581)           | ) (24,910)          |
| Interest expense                                                   | (555)                 | ) (2,130)                 | ) (26)                        | ) —                   | (2,711)             |
| Other (expense) income, net                                        | (208,564)             | ) (1,791)                 | ) 212,743                     | —                     | 2,388               |
| (Loss) earnings from continuing operations before income taxes     | (68,561)              | ) 219,968                 | 210,182                       | (226,581)             | ) 135,008           |
| Income tax benefit (provision)                                     | 147,328               | (75,075)                  | ) (128,007)                   | ) —                   | (55,754)            |
| Earnings from continuing operations                                | 78,767                | 144,893                   | 82,175                        | (226,581)             | ) 79,254            |
| (Loss) earnings from discontinued operations, net of tax           | (957)                 | ) —                       | 258                           | (258)                 | ) (957)             |
| Net earnings                                                       | 77,810                | 144,893                   | 82,433                        | (226,839)             | ) 78,297            |
| Net loss (earnings) attributable to noncontrolling interests       | —                     | 37                        | (524)                         | ) —                   | (487)               |
| Net earnings attributable to IAC shareholders                      | \$77,810              | \$144,930                 | \$81,909                      | \$(226,839)           | ) \$77,810          |
| Comprehensive income attributable to IAC shareholders              | \$74,693              | \$144,720                 | \$65,560                      | \$(210,280)           | ) \$74,693          |

## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Statement of cash flows for the six months ended June 30, 2013:

|                                                                                           | IAC            | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Total<br>Eliminations | IAC<br>Consolidated |
|-------------------------------------------------------------------------------------------|----------------|---------------------------|-------------------------------|-----------------------|---------------------|
|                                                                                           | (In thousands) |                           |                               |                       |                     |
| Net cash (used in) provided by operating activities attributable to continuing operations | \$(32,997 )    | \$253,527                 | \$7,733                       | \$—                   | \$228,263           |
| Cash flows from investing activities attributable to continuing operations:               |                |                           |                               |                       |                     |
| Acquisitions, net of cash acquired                                                        | —              | (6,072 )                  | (30,841 )                     | —                     | (36,913 )           |
| Capital expenditures                                                                      | (719 )         | (38,482 )                 | (8,618 )                      | —                     | (47,819 )           |
| Proceeds from maturities and sales of marketable debt securities                          | 12,502         | —                         | —                             | —                     | 12,502              |
| Proceeds from sales of long-term investments                                              | —              | —                         | 310                           | —                     | 310                 |
| Purchases of long-term investments                                                        | (17,362 )      | —                         | (7,897 )                      | —                     | (25,259 )           |
| Other, net                                                                                | (55 )          | 38                        | (1,426 )                      | —                     | (1,443 )            |
| Net cash used in investing activities attributable to continuing operations               | (5,634 )       | (44,516 )                 | (48,472 )                     | —                     | (98,622 )           |
| Cash flows from financing activities attributable to continuing operations:               |                |                           |                               |                       |                     |
| Purchase of treasury stock                                                                | (162,660 )     | —                         | —                             | —                     | (162,660 )          |
| Net payments from stock-based award activities                                            | (868 )         | —                         | —                             | —                     | (868 )              |
| Dividends                                                                                 | (38,880 )      | —                         | —                             | —                     | (38,880 )           |
| Excess tax benefits from stock-based awards                                               | 23,547         | —                         | —                             | —                     | 23,547              |
| Principal payments on long-term debt                                                      | (15,844 )      | —                         | —                             | —                     | (15,844 )           |
| Intercompany                                                                              | 144,320        | (207,810 )                | 63,490                        | —                     | —                   |
| Other, net                                                                                | (927 )         | (1,224 )                  | (1,483 )                      | —                     | (3,634 )            |
| Net cash (used in) provided by financing activities attributable to continuing operations | (51,312 )      | (209,034 )                | 62,007                        | —                     | (198,339 )          |
| Total cash (used in) provided by continuing operations                                    | (89,943 )      | (23 )                     | 21,268                        | —                     | (68,698 )           |
| Total cash provided by discontinued operations                                            | 2,335          | —                         | —                             | —                     | 2,335               |
| Effect of exchange rate changes on cash and cash equivalents                              | —              | 23                        | (4,912 )                      | —                     | (4,889 )            |
| Net (decrease) increase in cash and cash equivalents                                      | (87,608 )      | —                         | 16,356                        | —                     | (71,252 )           |
| Cash and cash equivalents at beginning of period                                          | 501,075        | —                         | 248,902                       | —                     | 749,977             |
| Cash and cash equivalents at end of period                                                | \$413,467      | \$—                       | \$265,258                     | \$—                   | \$678,725           |



## IAC/INTERACTIVECORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Statement of cash flows for the six months ended June 30, 2012:

|                                                                                           | IAC            | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Total<br>Eliminations | IAC<br>Consolidated |
|-------------------------------------------------------------------------------------------|----------------|---------------------------|-------------------------------|-----------------------|---------------------|
|                                                                                           | (In thousands) |                           |                               |                       |                     |
| Net cash (used in) provided by operating activities attributable to continuing operations | \$(11,514 )    | \$204,438                 | \$12,603                      | \$—                   | \$205,527           |
| Cash flows from investing activities attributable to continuing operations:               |                |                           |                               |                       |                     |
| Acquisitions, net of cash acquired                                                        | —              | (19,126 )                 | (1,285 )                      | —                     | (20,411 )           |
| Capital expenditures                                                                      | (31 )          | (13,010 )                 | (7,312 )                      | —                     | (20,353 )           |
| Proceeds from maturities and sales of marketable debt securities                          | 39,000         | —                         | —                             | —                     | 39,000              |
| Purchases of marketable debt securities                                                   | (24,254 )      | —                         | —                             | —                     | (24,254 )           |
| Proceeds from sales of long-term investments                                              | 12,527         | —                         | —                             | —                     | 12,527              |
| Purchases of long-term investments                                                        | —              | (24 )                     | (6,220 )                      | —                     | (6,244 )            |
| Other, net                                                                                | (350 )         | (220 )                    | (12,033 )                     | —                     | (12,603 )           |
| Net cash provided by (used in) investing activities attributable to continuing operations | 26,892         | (32,380 )                 | (26,850 )                     | —                     | (32,338 )           |
| Cash flows from financing activities attributable to continuing operations:               |                |                           |                               |                       |                     |
| Purchase of treasury stock                                                                | (359,231 )     | —                         | —                             | —                     | (359,231 )          |
| Net proceeds from stock-based award activities                                            | 301,677        | —                         | —                             | —                     | 301,677             |
| Dividends                                                                                 | (21,697 )      | —                         | —                             | —                     | (21,697 )           |
| Excess tax benefits from stock-based awards                                               | 9,461          | 4,892                     | —                             | —                     | 14,353              |
| Intercompany                                                                              | 109,568        | (176,951 )                | 67,383                        | —                     | —                   |
| Other, net                                                                                | —              | —                         | (2,842 )                      | —                     | (2,842 )            |
| Net cash provided by (used in) financing activities attributable to continuing operations | 39,778         | (172,059 )                | 64,541                        | —                     | (67,740 )           |
| Total cash provided by (used in) continuing operations                                    | 55,156         | (1 )                      | 50,294                        | —                     | 105,449             |
| Total cash used in discontinued operations                                                | (656 )         | —                         | (73 )                         | —                     | (729 )              |
| Effect of exchange rate changes on cash and cash equivalents                              | —              | 1                         | (1,678 )                      | —                     | (1,677 )            |
| Net increase in cash and cash equivalents                                                 | 54,500         | —                         | 48,543                        | —                     | 103,043             |
| Cash and cash equivalents at beginning of period                                          | 545,222        | —                         | 158,931                       | —                     | 704,153             |
| Cash and cash equivalents at end of period                                                | \$599,722      | \$—                       | \$207,474                     | \$—                   | \$807,196           |



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

## GENERAL

## Management Overview

IAC is a leading media and internet company comprised of more than 150 brands and products, including Ask.com, About.com, Match.com, HomeAdvisor.com and Vimeo.com. Focused in the areas of search, applications, online dating, local and media, IAC's network of websites is one of the largest in the world, with more than a billion monthly visits across more than 30 countries.

For a more detailed description of the Company's operating businesses, see the Company's annual report on Form 10-K for the year ended December 31, 2012.

Results of Operations for the three and six months ended June 30, 2013 compared to the three and six months ended June 30, 2012

## Revenue

|                           | Three Months Ended June 30, |           |          |           | Six Months Ended June 30, |           |          |             |
|---------------------------|-----------------------------|-----------|----------|-----------|---------------------------|-----------|----------|-------------|
|                           | 2013                        | \$ Change | % Change | 2012      | 2013                      | \$ Change | % Change | 2012        |
|                           | (Dollars in thousands)      |           |          |           |                           |           |          |             |
| Search & Applications     | \$427,449                   | \$78,687  | 23%      | \$348,762 | \$824,641                 | \$132,681 | 19%      | \$691,960   |
| Match                     | 194,320                     | 15,902    | 9%       | 178,418   | 383,182                   | 30,489    | 9%       | 352,693     |
| Local                     | 84,734                      | 229       | —%       | 84,505    | 159,679                   | (1,945)   | (1)%     | 161,624     |
| Media                     | 58,014                      | 19,646    | 51%      | 38,368    | 103,329                   | 49,050    | 90%      | 54,279      |
| Other                     | 35,005                      | 4,376     | 14%      | 30,629    | 71,050                    | 10,215    | 17%      | 60,835      |
| Inter-segment elimination | (111)                       | (41)      | (58)%    | (70)      | (221)                     | (42)      | (23)%    | (179)       |
| Total                     | \$799,411                   | \$118,799 | 17%      | \$680,612 | \$1,541,660               | \$220,448 | 17%      | \$1,321,212 |

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

Search & Applications revenue increased 23% to \$427.4 million, reflecting strong growth from both Applications (which includes our direct to consumer downloadable applications business (B2C) and our partnership operations (B2B), as well as our Ask.com and Dictionary.com downloadable applications) and Websites (which includes Ask.com, About.com and Dictionary.com). Applications revenue grew 26% to \$224.6 million, driven by increased contributions from existing and new B2B partners and B2C products. Websites revenue grew 19% to \$202.9 million, reflecting the contribution from The About Group, acquired September 24, 2012, which had revenue of \$36.7 million.

Match revenue increased 9% to \$194.3 million driven by increases in subscribers. Core revenue (which consists of Match.com in the U.S., Chemistry and People Media), Meetic revenue and Developing revenue (which includes OkCupid, DateHookup, Twoo and Match's international operations, excluding Meetic) increased 6% to \$116.1 million; 4% to \$54.8 million; and 44% to \$23.4 million, respectively. Developing revenue benefitted from the contribution of Twoo, acquired January 4, 2013.

Local revenue was flat primarily reflecting the contribution of Felix, a pay-per-call advertising service acquired August 20, 2012, and an increase from HomeAdvisor's operations, offset by a decrease from CityGrid Media.

Media revenue increased 51% to \$58.0 million primarily due to strong growth from Electus and Vimeo, as well as the contribution from News\_Beast (formerly The Newsweek/DailyBeast Company), consolidated beginning June 1, 2012 following the Company's acquisition of a controlling interest.

Other revenue increased 14% to \$35.0 million primarily due to the contribution from Tutor.com, an online tutoring solution acquired December 14, 2012.

A substantial portion of the Company's revenue is derived from online advertising. Most of the Company's online advertising revenue is attributable to our services agreement with Google Inc. ("Google"), which expires on March 31, 2016. For the three months ended June 30, 2013 and 2012, revenue earned from Google was \$405.8 million and \$335.8 million, respectively. This revenue was earned by the businesses comprising the Search & Applications segment.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

Search & Applications revenue increased 19% to \$824.6 million, reflecting strong growth from both Applications and Websites. Applications revenue grew 19% to \$432.1 million, driven by the factors described above in the three month discussion. Websites revenue grew 19% to \$392.5 million, reflecting the contribution from The About Group, acquired September 24, 2012, which had revenue of \$68.1 million.

Match revenue increased 9% to \$383.2 million driven by increases in subscribers. Core revenue, Meetic revenue and Developing revenue increased 5% to \$229.8 million; 8% to \$109.8 million; and 32% to \$43.6 million, respectively. Developing revenue was also impacted by the factor described above in the three month discussion. Meetic revenue in 2012 of \$101.3 million was negatively impacted by the write-off of \$5.2 million of deferred revenue in connection with its acquisition.

Local revenue decreased 1% to \$159.7 million, primarily reflecting a decline from CityGrid Media and HomeAdvisor, partially offset by the contribution of Felix. HomeAdvisor domestic revenue was negatively impacted by a 13% decrease in accepted service requests due primarily to the domain name change.

Media and Other revenue increased 90% to \$103.3 million and 17% to \$71.1 million, respectively, primarily due to the factors described above in the three months discussion.

For the six months ended June 30, 2013 and 2012, revenue earned from Google was \$781.9 million and \$664.7 million, respectively.

#### Cost of revenue

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

|                            | Three Months Ended June 30, |           |          |           |
|----------------------------|-----------------------------|-----------|----------|-----------|
|                            | 2013                        | \$ Change | % Change | 2012      |
|                            | (Dollars in thousands)      |           |          |           |
| Cost of revenue            | \$272,822                   | \$35,518  | 15%      | \$237,304 |
| As a percentage of revenue | 34%                         |           |          | 35%       |

Cost of revenue consists primarily of traffic acquisition costs. Traffic acquisition costs consist of payments made to partners who distribute our B2B customized browser-based applications, integrate our paid listings into their websites or direct traffic to our websites. These payments include amounts based on revenue share and other arrangements. Cost of revenue also includes Shoebuy's cost of products sold and shipping and handling costs, production costs related to media produced by Electus and other businesses within our Media segment, content acquisition costs, expenses associated with the operation of the Company's data centers, including compensation and other employee-related costs (including stock-based compensation) for personnel engaged in data center functions, rent, energy and bandwidth costs.

Cost of revenue in 2013 increased from 2012 primarily due to increases of \$24.6 million from Search & Applications, \$7.2 million from Media and \$3.1 million from Other. The increase in cost of revenue from Search & Applications was primarily due to an increase of \$18.4 million in traffic acquisition costs driven by increased revenue from our B2B operations. As a percentage of revenue, traffic acquisition costs at Search & Applications decreased compared to the prior year due to an increase in the proportion of revenue from Websites which resulted from the acquisition of The About Group. Cost of revenue from Media increased primarily due to increased production costs at Electus related to the increase in its revenue, partially offset by decreased expenses at News\_Beast as it transitioned to a digital only publication in 2013. The increase in cost of

revenue from Other is due to an increase in the cost of products sold at Shoebuy resulting from increased sales and Tutor.com, acquired December 14, 2012.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

|                            | Six Months Ended June 30,<br>2013 | \$ Change | % Change | 2012      |
|----------------------------|-----------------------------------|-----------|----------|-----------|
|                            | (Dollars in thousands)            |           |          |           |
| Cost of revenue            | \$528,671                         | \$68,067  | 15%      | \$460,604 |
| As a percentage of revenue | 34%                               |           |          | 35%       |

Cost of revenue in 2013 increased from 2012 primarily due to increases of \$35.2 million from Search & Applications, \$26.6 million from Media and \$7.6 million from Other. The increases in cost of revenue from Search & Applications and Other are primarily due to the factors described above in the three month discussion. Cost of revenue from Media increased primarily due to production costs at Electus related to the increase in its revenue and News\_Beast, consolidated beginning June 1, 2012.

#### Selling and marketing expense

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

|                               | Three Months Ended June 30,<br>2013 | \$ Change | % Change | 2012      |
|-------------------------------|-------------------------------------|-----------|----------|-----------|
|                               | (Dollars in thousands)              |           |          |           |
| Selling and marketing expense | \$247,153                           | \$35,901  | 17%      | \$211,252 |
| As a percentage of revenue    | 31%                                 |           |          | 31%       |

Selling and marketing expense consists primarily of advertising and promotional expenditures and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in sales, sales support and customer service functions. Advertising and promotional expenditures include online marketing, including fees paid to search engines and third parties that distribute our B2C downloadable applications, and offline marketing, which is primarily television advertising.

Selling and marketing expense in 2013 increased from 2012 primarily due to increases of \$20.7 million from Search & Applications, \$7.2 million from Match and \$5.7 million from Local. The increase from Search & Applications is primarily due to increases of \$14.3 million and \$2.9 million in online marketing and compensation and other employee-related costs, respectively. The increase in online marketing from Search & Applications is primarily related to new B2C downloadable applications and the inclusion of The About Group, acquired on September 24, 2012. Selling and marketing expense at Match increased primarily due to an increase of \$4.0 million in offline marketing spend. The increase from Local is primarily due to an increase of \$4.1 million in marketing spend related to the re-branding of the HomeAdvisor domain name.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

|                               | Six Months Ended June 30,<br>2013 | \$ Change | % Change | 2012      |
|-------------------------------|-----------------------------------|-----------|----------|-----------|
|                               | (Dollars in thousands)            |           |          |           |
| Selling and marketing expense | \$490,067                         | \$60,029  | 14%      | \$430,038 |
| As a percentage of revenue    | 32%                               |           |          | 33%       |

Selling and marketing expense in 2013 increased from 2012 primarily due to increases of \$34.3 million from Search & Applications, \$11.7 million from Match, \$8.0 million from Local and \$5.4 million from Media. The increases from

Search & Applications, Match and Local are primarily due to the factors described above in the three month discussion. Selling and marketing expense at Media increased primarily due to an increase of \$3.0 million in online marketing spend at Vimeo.

## General and administrative expense

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

|                                    | Three Months Ended June 30, |           |          | 2012     |
|------------------------------------|-----------------------------|-----------|----------|----------|
|                                    | 2013                        | \$ Change | % Change |          |
|                                    | (Dollars in thousands)      |           |          |          |
| General and administrative expense | \$103,515                   | \$13,876  | 15%      | \$89,639 |
| As a percentage of revenue         | 13%                         |           |          | 13%      |

General and administrative expense consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in executive management, finance, legal, tax and human resources, facilities costs and fees for professional services.

General and administrative expense in 2013 increased from 2012 primarily due to increases of \$5.3 million from Media, \$4.5 million from Local, \$4.2 million from Match, \$2.9 million from Search & Applications and \$2.5 million from Other, partially offset by a decrease of \$5.6 million from corporate. The increase in general and administrative expense from Media resulted primarily from the inclusion of News\_Beast, consolidated beginning June 1, 2012. General and administrative expense from Local increased primarily due to the inclusion of \$4.2 million in employee termination costs associated with the CityGrid Media restructuring. The increase in general and administrative expense from Match is due to an acquisition-related contingent consideration fair value adjustment that arose from the acquisition of Twoo in the first quarter of 2013. The increase in general and administrative expense from Search & Applications is primarily due to the inclusion of The About Group, acquired on September 24, 2012. General and administrative expense from Other increased primarily due to the inclusion of Tutor.com, acquired on December 14, 2012. The decrease in general and administrative expense from corporate is primarily due to a decrease of \$7.0 million in non-cash compensation expense as certain awards fully vested in the fourth quarter of 2012 and the number of awards forfeited increased from the prior year, partially offset by an increase in professional fees.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

|                                    | Six Months Ended June 30, |           |          | 2012      |
|------------------------------------|---------------------------|-----------|----------|-----------|
|                                    | 2013                      | \$ Change | % Change |           |
|                                    | (Dollars in thousands)    |           |          |           |
| General and administrative expense | \$199,239                 | \$21,128  | 12%      | \$178,111 |
| As a percentage of revenue         | 13%                       |           |          | 13%       |

General and administrative expense in 2013 increased from 2012 primarily due to increases of \$11.9 million from Media, \$6.6 million from Search & Applications, \$5.7 million from Local, \$4.8 million from Other and \$4.3 million from Match, partially offset by a decrease of \$12.3 million from corporate. The increases in general and administrative expense from Media, Search & Applications, Local, Other and Match and the decrease from corporate are primarily due to the factors described above in the three month discussion.

## Product development expense

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

|                             | Three Months Ended June 30, |           |          | 2012     |
|-----------------------------|-----------------------------|-----------|----------|----------|
|                             | 2013                        | \$ Change | % Change |          |
|                             | (Dollars in thousands)      |           |          |          |
| Product development expense | \$34,052                    | \$7,141   | 27%      | \$26,911 |
| As a percentage of revenue  | 4%                          |           |          | 4%       |



Product development expense consists primarily of compensation and other employee-related costs (including stock-based compensation) that are not capitalized for personnel engaged in the design, development, testing and enhancement of product offerings and related technology.

Product development expense in 2013 increased from 2012 primarily due to increases of \$5.5 million from Search & Applications and \$1.9 million from Media. The increase in product development expense from Search & Applications is primarily due to a decrease in costs being capitalized in the current year period as well as an increase in compensation and other employee-related costs associated with the inclusion of The About Group, acquired on September 24, 2012. The increase from Media is primarily due to News\_Beast, consolidated beginning June 1, 2012.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

|                             | Six Months Ended June 30, |           |          | 2012     |
|-----------------------------|---------------------------|-----------|----------|----------|
|                             | 2013                      | \$ Change | % Change |          |
|                             | (Dollars in thousands)    |           |          |          |
| Product development expense | \$69,169                  | \$14,137  | 26%      | \$55,032 |
| As a percentage of revenue  | 4%                        |           |          | 4%       |

Product development expense in 2013 increased from 2012 primarily due to increases of \$10.8 million from Search & Applications and \$3.1 million from Media. The increases in product development expense from Search & Applications and Media are primarily due to the factors described above in the three month discussion.

#### Depreciation

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

|                            | Three Months Ended June 30, |           |          | 2012     |
|----------------------------|-----------------------------|-----------|----------|----------|
|                            | 2013                        | \$ Change | % Change |          |
|                            | (Dollars in thousands)      |           |          |          |
| Depreciation               | \$17,036                    | \$4,811   | 39%      | \$12,225 |
| As a percentage of revenue | 2%                          |           |          | 2%       |

Depreciation in 2013 increased from 2012 resulting from the write-off of \$2.7 million in capitalized software costs at The About Group primarily related to projects which commenced prior to its acquisition, the incremental depreciation associated with capital expenditures made subsequent to the second half of 2012 and various acquisitions, partially offset by certain fixed assets becoming fully depreciated.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

|                            | Six Months Ended June 30, |           |          | 2012     |
|----------------------------|---------------------------|-----------|----------|----------|
|                            | 2013                      | \$ Change | % Change |          |
|                            | (Dollars in thousands)    |           |          |          |
| Depreciation               | \$31,052                  | \$6,712   | 28%      | \$24,340 |
| As a percentage of revenue | 2%                        |           |          | 2%       |

Depreciation in 2013 increased from 2012 primarily due to the factors described above in the three month discussion.

## Operating Income Before Amortization

|                       | Three Months Ended June 30, |           |          |           | Six Months Ended June 30, |           |          |           |
|-----------------------|-----------------------------|-----------|----------|-----------|---------------------------|-----------|----------|-----------|
|                       | 2013                        | \$ Change | % Change | 2012      | 2013                      | \$ Change | % Change | 2012      |
|                       | (Dollars in thousands)      |           |          |           |                           |           |          |           |
| Search & Applications | \$96,007                    | \$21,928  | 30%      | \$74,079  | \$189,656                 | \$42,077  | 29%      | \$147,579 |
| Match                 | 67,608                      | 4,963     | 8%       | 62,645    | 113,911                   | 13,938    | 14%      | 99,973    |
| Local                 | 1,968                       | (9,864 )  | (83)%    | 11,832    | 967                       | (14,815 ) | (94)%    | 15,782    |
| Media                 | (3,522 )                    | 3,267     | 48%      | (6,789 )  | (11,896 )                 | 1,294     | 10%      | (13,190 ) |
| Other                 | (3,418 )                    | (1,663 )  | (95)%    | (1,755 )  | (5,917 )                  | (2,764 )  | (88)%    | (3,153 )  |
| Corporate             | (17,741 )                   | (1,451 )  | (9)%     | (16,290 ) | (33,069 )                 | (1,072 )  | (3)%     | (31,997 ) |
| Total                 | \$140,902                   | \$17,180  | 14%      | \$123,722 | \$253,652                 | \$38,658  | 18%      | \$214,994 |

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

Search & Applications Operating Income Before Amortization increased 30% to \$96.0 million, benefiting from the higher revenue noted above, partially offset by increases of \$20.7 million in selling and marketing expense, \$18.4 million in traffic acquisition costs, \$5.5 million in product development expense and \$2.9 million in general and administrative expense. The increase in selling and marketing expense is driven primarily by increased online marketing expenditures related to new B2C downloadable applications and the inclusion of The About Group, acquired on September 24, 2012. The increase in traffic acquisition costs is primarily due to increased revenue from our B2B operations. The increase in both product development expense and general and administrative expense is primarily due to an increase in compensation and other employee-related costs related to the inclusion of The About Group. Product development expense was also impacted by a decrease in costs being capitalized in the current year period. Search & Applications Operating Income Before Amortization was further impacted in the current year by the write-off of \$2.7 million in capitalized software costs at The About Group primarily related to projects which commenced prior to its acquisition.

Match Operating Income Before Amortization increased 8% to \$67.6 million, primarily due to the higher revenue noted above, partially offset by an increase of \$7.2 million in selling and marketing expense related to an increase in offline marketing spend.

Local Operating Income Before Amortization decreased 83% to \$2.0 million reflecting increases of \$5.7 million in selling and marketing expense and \$4.5 million in general and administrative expense. The increases in selling and marketing expense and general and administrative expense are primarily due to marketing costs related to the re-branding of the HomeAdvisor domain name and \$4.2 million in employee termination costs associated with the CityGrid Media restructuring, respectively.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

Search & Applications Operating Income Before Amortization increased 29% to \$189.7 million primarily due to the factors described above in the three months discussion. Match Operating Income Before Amortization increased 14% to \$113.9 million due to the higher revenue noted above and operating expense leverage. Local Operating Income Before Amortization decreased 94% to \$1.0 million primarily due to the factors described above in the three month discussion.

# Operating income (loss)

|                       | Three Months Ended June 30, |           |          |           | Six Months Ended June 30, |           |          |           |
|-----------------------|-----------------------------|-----------|----------|-----------|---------------------------|-----------|----------|-----------|
|                       | 2013                        | \$ Change | % Change | 2012      | 2013                      | \$ Change | % Change | 2012      |
|                       | (Dollars in thousands)      |           |          |           |                           |           |          |           |
| Search & Applications | \$89,346                    | \$15,279  | 21%      | \$74,067  | \$176,329                 | \$28,772  | 19%      | \$147,557 |
| Match                 | 58,387                      | 1,288     | 2%       | 57,099    | 99,346                    | 12,341    | 14%      | 87,005    |
| Local                 | (3,958 )                    | (15,628 ) | NM       | 11,670    | (7,361 )                  | (22,820 ) | NM       | 15,459    |
| Media                 | (4,028 )                    | 3,277     | 45%      | (7,305 )  | (12,856 )                 | 1,118     | 8%       | (13,974 ) |
| Other                 | (4,097 )                    | (1,915 )  | (88)%    | (2,182 )  | (7,319 )                  | (3,423 )  | (88)%    | (3,896 )  |
| Corporate             | (28,954 )                   | 6,919     | 19%      | (35,873 ) | (56,892 )                 | 15,018    | 21%      | (71,910 ) |
| Total                 | \$106,696                   | \$9,220   | 9%       | \$97,476  | \$191,247                 | \$31,006  | 19%      | \$160,241 |

Refer to Note 9 to the consolidated financial statements for reconciliations of Operating Income Before Amortization to operating income (loss) by reportable segment.

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

Operating income in 2013 increased from 2012 primarily due to the increase of \$17.2 million in Operating Income Before Amortization described above and a decrease of \$8.6 million in non-cash compensation expense, partially offset by increases of \$12.3 million in amortization of intangibles and \$4.2 million in acquisition-related contingent consideration fair value adjustments. The decrease in non-cash compensation expense is primarily a result of certain awards fully vesting in the fourth quarter of 2012 and the number of awards forfeited increased from the prior year. The increase in amortization of intangibles is primarily related to the acquisition of The About Group and a \$3.4 million impairment charge associated with an indefinite-lived intangible asset related to the CityGrid Media restructuring. The acquisition-related contingent consideration fair value adjustment arose from the acquisition of Two in the first quarter of 2013.

At June 30, 2013, there was \$105.0 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is expected to be recognized over a weighted average period of approximately 2.6 years.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

Operating income in 2013 increased from 2012 primarily due to the increase of \$38.7 million in Operating Income Before Amortization described above and a decrease of \$17.4 million in non-cash compensation expense, partially offset by increases of \$19.4 million in amortization of intangibles and \$5.7 million in acquisition-related contingent consideration fair value adjustments. The decrease in non-cash compensation expense and increases in amortization of intangibles and acquisition-related contingent consideration fair value adjustments are due to the factors described above in the three month discussion.

## Equity in losses of unconsolidated affiliates

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

|                                               | Three Months Ended June 30, |           |          | 2012       |
|-----------------------------------------------|-----------------------------|-----------|----------|------------|
|                                               | 2013                        | \$ Change | % Change |            |
|                                               | (Dollars in thousands)      |           |          |            |
| Equity in losses of unconsolidated affiliates | \$(1,078)                   | \$17,931  | 94%      | \$(19,009) |

Equity in losses of unconsolidated affiliates in 2013 decreased from 2012 primarily due to the inclusion in 2012 of a pre-tax non-cash charge of \$18.6 million related to the re-measurement of the carrying value of our investment in News\_Beast to fair value in connection with our acquisition of a controlling interest in May 2012.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

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|                                               | Six Months Ended June 30,<br>2013 | \$ Change | % Change | 2012       |
|-----------------------------------------------|-----------------------------------|-----------|----------|------------|
|                                               | (Dollars in thousands)            |           |          |            |
| Equity in losses of unconsolidated affiliates | \$(1,169)                         | \$23,741  | 95%      | \$(24,910) |

Equity in losses of unconsolidated affiliates in 2013 decreased from 2012 primarily due to the factor described above in the three month discussion.

#### Interest expense

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

|                  | Three Months Ended June 30,<br>2013 | \$ Change | % Change | 2012      |
|------------------|-------------------------------------|-----------|----------|-----------|
|                  | (Dollars in thousands)              |           |          |           |
| Interest expense | \$(7,658)                           | \$(6,294) | 461%     | \$(1,364) |

Interest expense in 2013 increased from 2012 primarily due to the issuance of \$500.0 million aggregate principal amount of 4.75% Senior Notes due December 15, 2022.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

|                  | Six Months Ended June 30,<br>2013 | \$ Change  | % Change | 2012      |
|------------------|-----------------------------------|------------|----------|-----------|
|                  | (Dollars in thousands)            |            |          |           |
| Interest expense | \$(15,321)                        | \$(12,610) | 465%     | \$(2,711) |

Interest expense in 2013 increased from 2012 primarily due to the factor described above in the three month discussion.

#### Income tax provision

For the three months ended June 30, 2013 compared to the three months ended June 30, 2012

|                      | Three Months Ended June 30,<br>2013 | \$ Change | % Change | 2012       |
|----------------------|-------------------------------------|-----------|----------|------------|
|                      | (Dollars in thousands)              |           |          |            |
| Income tax provision | \$(39,416)                          | NM        | NM       | \$(28,634) |

In 2013, the Company recorded an income tax provision for continuing operations of \$39.4 million, which represents an effective income tax rate of 40%. The 2013 effective rate is higher than the statutory rate of 35% due primarily to state taxes and interest on reserves for income tax contingencies, partially offset by foreign income taxed at lower rates. In 2012, the Company recorded an income tax provision for continuing operations of \$28.6 million, which represents an effective income tax rate of 37%. The 2012 effective rate is higher than the statutory rate of 35% due primarily to a valuation allowance on the deferred tax asset created by the News\_Beast non-cash re-measurement charge related to our acquisition of a controlling interest, and state taxes, partially offset by foreign income taxed at lower rates and a net decrease in the valuation allowance on beginning of the year deferred tax assets related to investments in unconsolidated affiliates.

For the six months ended June 30, 2013 compared to the six months ended June 30, 2012

|                      | Six Months Ended June 30, |           |          |            |
|----------------------|---------------------------|-----------|----------|------------|
|                      | 2013                      | \$ Change | % Change | 2012       |
|                      | (Dollars in thousands)    |           |          |            |
| Income tax provision | \$(65,162)                | NM        | NM       | \$(55,754) |

In 2013, the Company recorded an income tax provision for continuing operations of \$65.2 million, which represents an effective income tax rate of 37%. The 2013 effective rate is higher than the statutory rate of 35% due primarily to state taxes and interest on reserves for income tax contingencies, partially offset by foreign income taxed at lower rates. In 2012, the Company recorded an income tax provision for continuing operations of \$55.8 million, which represents an effective income tax rate of 41%. The 2012 effective rate is higher than the statutory rate of 35% due primarily to an increase in reserves for and interest on reserves for income tax contingencies, a valuation allowance on the deferred tax asset created by the News\_Beast non-cash re-measurement charge, and state taxes, partially offset by foreign income taxed at lower rates and a net decrease in the valuation allowance on beginning of the year deferred tax assets related to investments in unconsolidated affiliates.

At June 30, 2013 and December 31, 2012, the Company has unrecognized tax benefits of \$374.3 million and \$379.3 million, respectively. Unrecognized tax benefits at June 30, 2013 decreased \$5.0 million from December 31, 2012 due principally to a net decrease in deductible timing differences. The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax provision. Included in income tax provision for continuing operations and discontinued operations for the three months ended June 30, 2013 is a \$1.5 million and a \$1.0 million expense, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. Included in the income tax provision for continuing operations and discontinued operations for the six months ended June 30, 2013 is a \$2.9 million and a \$2.0 million expense, respectively, net of related deferred taxes, for interest in unrecognized tax benefits. At June 30, 2013 and December 31, 2012, the Company has accrued \$125.0 million and \$117.5 million, respectively, for the payment of interest. At June 30, 2013 and December 31, 2012, the Company has accrued \$5.0 million for penalties.

The Company is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. The Internal Revenue Service ("IRS") has substantially completed its audit of the Company's tax returns for the years ended December 31, 2001 through 2009. The settlement of these tax years has been submitted to the Joint Committee of Taxation for approval. The statute of limitations for the years 2001 through 2009 is extended through June 30, 2014. Various state and local jurisdictions are currently under examination, the most significant of which are California, New York and New York City for various tax years beginning with 2006. Income taxes payable include reserves considered sufficient to pay assessments that may result from examination of prior year tax returns. Changes to reserves from period to period and differences between amounts paid, if any, upon resolution of issues raised in audits and amounts previously provided may be material. Differences between the reserves for income tax contingencies and the amounts owed by the Company are recorded in the period they become known. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by \$124.4 million within twelve months of the current reporting date, of which approximately \$16.8 million could decrease income tax provision, primarily due to settlements, expirations of statutes of limitations, and the reversal of deductible temporary differences that will primarily result in a corresponding decrease in net deferred tax assets. An estimate of other changes in unrecognized tax benefits, while potentially significant, cannot be made.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2013, the Company had \$678.7 million of cash and cash equivalents, \$7.8 million of marketable securities, and \$580.0 million of long-term debt. Domestically, cash equivalents primarily consist of AAA rated money market funds and commercial paper rated A2/P2 or better. Internationally, cash equivalents primarily consist of time deposits and AAA rated money market funds. Marketable securities consist of an equity security and a short-to-intermediate-term debt security issued by an investment grade corporate issuer. The Company only invests in marketable securities with active secondary or resale markets to ensure portfolio liquidity and the ability to readily convert investments into cash to fund current operations or satisfy other cash requirements as needed. From time to time, the Company may invest in marketable equity securities as part of its investment strategy. Long-term debt is comprised of \$500.0 million in 2012 Senior Notes due December 15, 2022 and \$80.0 million in Liberty Bonds due September 1, 2035.

At June 30, 2013, \$257.9 million of the \$678.7 million of cash and cash equivalents was held by the Company's foreign subsidiaries. If needed for our operations in the U.S., most of the cash and cash equivalents held by the Company's foreign subsidiaries could be repatriated to the U.S. but, under current law, would be subject to U.S. federal and state income taxes and we have not provided for any such tax. However, the Company's intent is to indefinitely reinvest these funds outside of the U.S. The Company currently does not anticipate a need to repatriate them to fund our U.S. operations.

In summary, the Company's cash flows attributable to continuing operations are as follows:

|                                           | Six Months Ended June 30, |           |
|-------------------------------------------|---------------------------|-----------|
|                                           | 2013                      | 2012      |
|                                           | (In thousands)            |           |
| Net cash provided by operating activities | \$228,263                 | \$205,527 |
| Net cash used in investing activities     | (98,622)                  | (32,338)  |
| Net cash used in financing activities     | (198,339)                 | (67,740)  |

Net cash provided by operating activities attributable to continuing operations consists of earnings or loss from continuing operations adjusted for non-cash items, including non-cash compensation expense, depreciation, amortization of intangibles, excess tax benefits from stock-based awards, deferred income taxes, asset impairment charges, equity in income or losses of unconsolidated affiliates, acquisition-related contingent consideration fair value adjustments, and the effect of changes in working capital activities. Net cash provided by operating activities attributable to continuing operations in 2013 was \$228.3 million and consists of earnings from continuing operations of \$111.2 million, adjustments for non-cash items of \$72.8 million and cash provided by working capital activities of \$44.2 million. Adjustments for non-cash items primarily consists of \$32.2 million of amortization of intangibles, \$31.1 million of depreciation, \$24.5 million of non-cash compensation expense, partially offset by \$23.5 million of excess tax benefits from stock-based awards. The increase in cash from changes in working capital activities primarily consists of an increase in income taxes payable of \$45.5 million and an increase in accounts payable and other current liabilities of \$23.4 million, partially offset by an increase of \$14.8 million in other current assets and an increase of \$9.8 million in accounts receivable. The increase in income taxes payable is due to current year income tax accruals in excess of current year income tax payments. The increase in accounts payable and other current liabilities is due to an increase in accrued employee compensation and benefits due to the timing of bonus payments and an increase in accrued revenue share expense primarily at Search & Applications, partially offset by a decrease in accruals due to News\_Beast's transition to a digital only publication in 2013 and a seasonal decrease in payables to suppliers at Shoebuy. The increase in other current assets is primarily due to an increase in short-term and long-term production costs at certain of our media businesses that are capitalized as the television program, video or film is being produced. The increase in accounts receivable is primarily due to the growth in revenue at Search & Applications earned from our services agreement with Google; the related receivable from Google was \$140.2 million and \$125.3 million at

June 30, 2013 and December 31, 2012, respectively. While Match experienced growth, its accounts receivable is principally credit card receivables and, is not significant in relation to its revenue. Electus' accounts receivable increased due to higher revenue. These increases were partially offset by a \$15.8 million decrease in accounts receivable at News\_Beast due to its transition to a digital only publication.

Net cash used in investing activities attributable to continuing operations in 2013 of \$98.6 million includes cash consideration used in acquisitions and investments of \$62.2 million, which includes the acquisition of Twoo, and capital

expenditures of \$47.8 million, which includes \$23.6 million related to the purchase of a 50% ownership interest in an aircraft, partially offset by net maturities and sales of marketable debt securities and sales of long-term investments of \$12.8 million.

Net cash used in financing activities attributable to continuing operations in 2013 of \$198.3 million includes \$162.7 million for the repurchase of 2.9 million shares of common stock at an average price of \$46.27 per share, \$38.9 million related to the payment of cash dividends to IAC shareholders and \$15.8 million for the payment of our 2002 Senior Notes, which were due January 15, 2013, partially offset by excess tax benefits from stock-based awards of \$23.5 million.

Net cash provided by operating activities attributable to continuing operations in 2012 was \$205.5 million and consists of earnings from continuing operations of \$79.3 million, adjustments for non-cash items of \$97.1 million and cash provided by working capital activities of \$29.2 million. Adjustments for non-cash items primarily consists of \$41.9 million of non-cash compensation expense, \$24.9 million of equity in losses of unconsolidated affiliates, which includes a non-cash charge of \$18.6 million to re-measure the carrying value of our investment in News\_Beast to fair value, \$24.3 million of depreciation and \$12.8 million of amortization of intangibles, partially offset by \$14.4 million of excess tax benefits from stock-based awards. The increase in cash from changes in working capital activities primarily consists of an increase in income taxes payable of \$44.8 million and an increase in deferred revenue of \$8.7 million, partially offset by an increase of \$19.4 million in accounts receivable and an increase of \$7.9 million in other current assets. The increase in income taxes payable is due to current year income tax accruals in excess of current year income tax payments. The increase in deferred revenue is primarily due to the growth in subscription revenue at Match, which includes an increase of \$5.2 million in deferred revenue at Meetic. The increase in accounts receivable is primarily due to the growth in revenue at Search & Applications earned from our services agreement with Google; the related receivable from Google was \$117.9 million and \$105.7 million at June 30, 2012 and December 31, 2011, respectively. While our Match and HomeAdvisor businesses experienced growth, the accounts receivable at these businesses are principally credit card receivables and, accordingly, are not significant in relation to the revenue of these businesses. The increase in other current assets is primarily related to the increase in short-term production costs at certain of our Media businesses that are capitalized as the television program, video or film is being produced. Net cash used in investing activities attributable to continuing operations in 2012 of \$32.3 million includes cash consideration used in acquisitions and investments of \$26.7 million, primarily related to the payment of contingent consideration associated with the 2011 acquisition of OkCupid and the June 2012 acquisition of nRelate, and capital expenditures of \$20.4 million primarily related to the internal development of software to support our products and services, partially offset by net maturities and sales of marketable debt securities and sales of long-term investments of \$27.3 million.

Net cash used in financing activities attributable to continuing operations in 2012 of \$67.7 million includes \$359.2 million for the repurchase of 7.8 million shares of common stock at an average price of \$46.25 per share and \$21.7 million related to the payment of cash dividends to IAC shareholders, partially offset by net proceeds from stock-based award activities of \$301.7 million and excess tax benefits from stock-based awards of \$14.4 million. Included in the net proceeds from stock-based award activities are proceeds of \$284.1 million from the exercise of warrants to acquire 11.7 million shares of IAC common stock, some of which were exercised on a cashless or net basis. The weighted average strike price of the warrants was \$28.40 per share.

The Company's principal sources of liquidity are its cash and cash equivalents and marketable securities as well as its cash flows generated from operations. The Company has a \$300.0 million revolving credit facility, which expires on December 21, 2017 and is available as an additional source of financing. At June 30, 2013, there were no outstanding borrowings under the revolving credit facility.

The Company anticipates that it will need to make capital and other expenditures in connection with the development and expansion of its operations. Capital expenditures in 2013 will be higher than 2012. At June 30, 2013, IAC had 10.2 million shares remaining in its share repurchase authorization. IAC may purchase shares over an indefinite period of time on the open market and in privately negotiated transactions, depending on those factors IAC management

deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook. On July 30, 2013, IAC declared a quarterly cash dividend of \$0.24 per share of common and Class B common stock outstanding payable on September 1, 2013 to stockholders of record on August 15, 2013.

The Company believes its existing cash, cash equivalents and marketable securities, together with its expected positive cash flows generated from operations and available borrowing capacity under its \$300.0 million revolving credit facility will be sufficient to fund its normal operating requirements, including capital expenditures, share repurchases, quarterly cash dividends,

and investing and other commitments for the next twelve months. Our liquidity could be negatively affected by a decrease in demand for our products and services. The Company may make acquisitions and investments that could reduce its cash, cash equivalents and marketable securities balances and as a result, the Company may need to raise additional capital through future debt or equity financing to provide for greater financial flexibility. Additional financing may not be available at all or on terms favorable to us.

## CONTRACTUAL OBLIGATIONS AND COMMERICAL COMMITMENTS

At June 30, 2013, there have been no material changes to the Company's contractual obligations, commercial commitments and off-balance sheet arrangements since the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2012.

## IAC'S PRINCIPLES OF FINANCIAL REPORTING

IAC reports Operating Income Before Amortization as a supplemental measure to generally accepted accounting principles ("GAAP"). This measure is one of the primary metrics by which we evaluate the performance of our businesses, on which our internal budgets are based and by which management is compensated. We believe that investors should have access to, and we are obligated to provide, the same set of tools that we use in analyzing our results. This non-GAAP measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. IAC endeavors to compensate for the limitations of the non-GAAP measure presented by providing the comparable GAAP measure with equal or greater prominence, financial statements prepared in accordance with GAAP, and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measure. We encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measure, which we discuss below. Interim results are not necessarily indicative of the results that may be expected for a full year.

### Definition of IAC's Non-GAAP Measure

Operating Income Before Amortization is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization and impairment of intangibles, (3) goodwill impairment, (4) acquisition-related contingent consideration fair value adjustments and (5) one-time items. We believe this measure is useful to investors because it represents the consolidated operating results from IAC's segments, taking into account depreciation, which we believe is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to IAC's statement of operations of certain expenses, including non-cash compensation and acquisition-related accounting.

### One-Time Items

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

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

Non-cash compensation expense consists principally of expense associated with the grants, including unvested grants assumed in acquisitions, of stock options, restricted stock units ("RSUs") and performance-based RSUs. These expenses are not paid in cash, and we include the related shares in our fully diluted shares outstanding which, for stock options and RSUs are included on a treasury method basis, and for performance-based RSUs are included on a treasury method basis once the performance conditions are met. Upon the exercise of certain stock options and vesting of RSUs and performance-based RSUs, the awards are settled, at the Company's discretion, on a net basis, with the Company remitting the required tax withholding amount from its current funds.

Amortization of intangibles (including impairment of intangibles, if applicable) and goodwill impairment (if applicable) are non-cash expenses relating primarily to acquisitions. At the time of an acquisition, the identifiable definite-lived intangible assets of the acquired company, such as content, technology, customer lists, advertiser and supplier relationships, are valued and amortized over their estimated lives. Value is also assigned to acquired indefinite-lived intangible assets, which comprise trade names and trademarks, and goodwill that are not subject to amortization. An impairment is recorded when the carrying value of an intangible asset or goodwill exceeds its fair value. While it is likely that we will have significant intangible amortization expense as we continue to acquire companies, we believe that intangible assets represent costs incurred by the acquired company to build value prior to acquisition and the related amortization and impairment charges of intangible assets or goodwill, if applicable, are not ongoing costs of doing business.

Acquisition-related contingent consideration fair value adjustments are accounting adjustments to record contingent consideration liabilities at fair value. These adjustments can be highly variable and are excluded from our assessment of performance because they are considered non-operational in nature and, therefore, are not indicative of current or future performance or ongoing costs of doing business.

RECONCILIATION OF OPERATING INCOME BEFORE AMORTIZATION

Note 9 to the consolidated financial statements includes a reconciliation of Operating Income Before Amortization to operating income (loss) by reportable segment for the three and six months ended June 30, 2013 and 2012.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

At June 30, 2013, there have been no material changes to the Company's instruments or positions that are sensitive to market risk since the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2012.

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Item 4. Controls and Procedures

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

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), IAC management, including the Chairman and Senior Executive, the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as defined by Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, the Chairman and Senior Executive, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report in providing reasonable assurance that information we are required to disclose in our filings with the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and Forms, and include controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

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

## PART II

### OTHER INFORMATION

#### Item 1A. Risk Factors

##### Cautionary Statement Regarding Forward-Looking Information

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The use of words such as "anticipates," "estimates," "expects," "intends," "plans" and "believes," among others, generally identify forward-looking statements. These forward-looking statements include, among others, statements relating to: IAC's future financial performance, IAC's business prospects and strategy, anticipated trends and prospects in the industries in which IAC's businesses operate and other similar matters. These forward-looking statements are based on IAC management's current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, among others: changes in senior management at IAC and/or its businesses, changes in our relationship with, or policies implemented by, Google, adverse changes in economic conditions, either generally or in any of the markets or industries in which IAC's businesses operate, adverse trends in the online advertising industry or the advertising industry generally, our ability to convert visitors to our various websites into users and customers, our ability to offer new or alternative products and services in a cost-effective manner and consumer acceptance of these products and services, changes in industry standards and technology, actual tax liabilities that differ materially from our estimates, operational and financial risks relating to acquisitions, our ability to expand successfully into international markets and regulatory changes. Certain of these and other risks and uncertainties are discussed in IAC's filings with the SEC, including in Part I "Item 1A. Risk Factors" of our annual report on Form 10-K for the fiscal year ended December 31, 2012. Other unknown or unpredictable factors that could also adversely affect IAC's business, financial condition and operating results may arise from time to time. In light of these risks and uncertainties, the forward-looking statements discussed in this report may not prove to be accurate. Accordingly, you should not place undue reliance on these forward-looking statements, which only reflect the views of IAC management as of the date of this quarterly report. IAC does not undertake to update these forward-looking statements.

#### Risk Factors

In addition to the other information set forth in this quarterly report, you should carefully consider the risk factors discussed in Part I "Item 1A. Risk Factors" of our annual report on Form 10-K for the fiscal year ended December 31, 2012, which could materially affect our business, financial condition or future operating results. The risks described in this report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or future operating results.

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

##### Issuer Purchases of Equity Securities

The following table sets forth purchases by the Company of its common stock during the quarter ended June 30, 2013:

| Period     | (a)<br>Total<br>Number of<br>Shares<br>Purchased | (b)<br>Average<br>Price Paid<br>Per Share(1) | (c)<br>Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs(2) | (d)<br>Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under<br>Publicly<br>Announced<br>Plans or<br>Programs(3) |
|------------|--------------------------------------------------|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| April 2013 | —                                                | \$—                                          | —                                                                                                                  | —                                                                                                                                  |
| May 2013   | 680,000                                          | \$50.25                                      | 680,000                                                                                                            | 11,007,606                                                                                                                         |
| June 2013  | 800,000                                          | \$48.69                                      | 800,000                                                                                                            | 10,207,606                                                                                                                         |
| Total      | 1,480,000                                        | \$49.41                                      | 1,480,000                                                                                                          | 10,207,606                                                                                                                         |

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

(2) Reflects repurchases made pursuant to repurchase authorizations previously announced in May 2012.

Represents the total number of shares of common stock that remained available for repurchase as of June 30, 2013 pursuant to the May 2012 and April 2013 repurchase authorizations. IAC may purchase shares pursuant to these

(3) repurchase authorizations over an indefinite period of time on the open market and in privately negotiated transactions, depending on those factors IAC management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

Item 6. Exhibits

The documents set forth below, numbered in accordance with Item 601 of Regulation S-K, are filed herewith, incorporated by reference to the location indicated or furnished herewith.

| Exhibit Number | Description                                                                                                                                                                                                                    | Location                                                                                        |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| 3.1            | Restated Certificate of Incorporation of IAC/InterActiveCorp.                                                                                                                                                                  | Exhibit 3.1 to the Registrant's Registration Statement on Form 8-A/A, filed on August 12, 2005. |
| 3.2            | Certificate of Amendment of the Restated Certificate of Incorporation of IAC/InterActiveCorp.                                                                                                                                  | Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 22, 2008.           |
| 3.3            | Amended and Restated By-Laws of IAC/InterActiveCorp.                                                                                                                                                                           | Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on December 6, 2010.          |
| 4.1            | Supplemental Indenture, dated as of May 30, 2013, among IAC/InterActiveCorp, as Issuer, the Guarantors party thereto and Computershare Trust Company, N.A., as Trustee.                                                        | Exhibit 4.4 to the Registrant's Registration Statement on Form S-4/A, filed on June 5, 2013.    |
| 10.1           | IAC/InterActiveCorp 2013 Stock and Annual Incentive Plan.(1)                                                                                                                                                                   |                                                                                                 |
| 31.1           | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.(1)                              |                                                                                                 |
| 31.2           | Certification of the Chairman and Senior Executive pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.(1)                        |                                                                                                 |
| 31.3           | Certification of the Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.(1) |                                                                                                 |
| 32.1           | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes Oxley Act.(2)                                                                               |                                                                                                 |
| 32.2           | Certification of the Chairman and Senior Executive pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.(2)                                                                         |                                                                                                 |
| 32.3           | Certification of the Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.(2)                                                  |                                                                                                 |
| 101.INS        | XBRL Instance                                                                                                                                                                                                                  |                                                                                                 |
| 101.SCH        | XBRL Taxonomy Extension Schema                                                                                                                                                                                                 |                                                                                                 |
| 101.CAL        | XBRL Taxonomy Extension Calculation                                                                                                                                                                                            |                                                                                                 |
| 101.DEF        | XBRL Taxonomy Extension Definition                                                                                                                                                                                             |                                                                                                 |
| 101.LAB        | XBRL Taxonomy Extension Labels                                                                                                                                                                                                 |                                                                                                 |
| 101.PRE        | XBRL Taxonomy Extension Presentation                                                                                                                                                                                           |                                                                                                 |

(1) Filed herewith.

(2)Furnished herewith.

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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.

Dated: August 8, 2013

IAC/INTERACTIVECORP

By: /s/ JEFFREY W. KIP  
Jeffrey W. Kip  
Executive Vice President and  
Chief Financial Officer

| Signature                            | Title                                                   | Date           |
|--------------------------------------|---------------------------------------------------------|----------------|
| /s/ JEFFREY W. KIP<br>Jeffrey W. Kip | Executive Vice President and<br>Chief Financial Officer | August 8, 2013 |

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