IAC/INTERACTIVECORP
Form 10-Q
May 08, 2013
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As filed with the Securities and Exchange Commission on May 8, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 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	59-2712887
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

555 West 18th Street, New York, New York 10011
(Address of registrant's principal executive offices)
(212) 314-7300
(Registrant's telephone number, including area code)

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

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 ý No o

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.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Common Stock	77,930,674
Class B Common Stock	5,789,499

Total outstanding Common Stock	83,720,173

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of April 26, 2013 was $3,557,423,469. 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)

	March 31, 2013	December 31, 2012
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$673,757	$749,977
Marketable securities	5,814	20,604
Accounts receivable, net of allowance of $8,908 and $11,088, respectively	235,181	229,830
Other current assets	140,930	156,339
Total current assets	1,055,682	1,156,750
Property and equipment, net	293,282	270,512
Goodwill	1,674,220	1,616,154
Intangible assets, net	478,784	482,904
Long-term investments	157,750	161,278
Other non-current assets	120,528	118,230
TOTAL ASSETS	$3,780,246	$3,805,828
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Current maturities of long-term debt	$—	$15,844
Accounts payable, trade	78,168	98,314
Deferred revenue	169,480	155,499
Accrued expenses and other current liabilities	343,791	355,232
Total current liabilities	591,439	624,889
Long-term debt, net of current maturities	580,000	580,000
Income taxes payable	481,908	479,945
Deferred income taxes	314,750	323,403
Other long-term liabilities	66,405	31,830
Redeemable noncontrolling interests	59,254	58,126
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Common stock $.001 par value; authorized 1,600,000,000 shares; issued 250,982,079 shares, and outstanding 77,889,960 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	11,606,585	11,607,367
Accumulated deficit	(264,882)	(318,519)
Accumulated other comprehensive loss	(44,096)	(32,169)
Treasury stock 183,460,119 and 182,878,295 shares, respectively	(9,661,355)	(9,601,218)
Total IAC shareholders' equity	1,636,519	1,655,728
Noncontrolling interests	49,971	51,907

Total shareholders' equity	1,686,490	1,707,635
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,780,246	$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 March 31,	
	2013	2012
	(In thousands, except per share data)	
Revenue	$742,249	$640,600
Costs and expenses:		
Cost of revenue (exclusive of depreciation shown separately below)	255,082	223,571
Selling and marketing expense	242,914	219,838
General and administrative expense	98,026	91,788
Product development expense	33,582	23,482
Depreciation	14,016	12,115
Amortization of intangibles	14,078	7,041
Total costs and expenses	657,698	577,835
Operating income	84,551	62,765
Equity in losses of unconsolidated affiliates	(91)	(5,901)
Interest expense	(7,663)	(1,347)
Other income, net	1,658	2,756
Earnings from continuing operations before income taxes	78,455	58,273
Income tax provision	(25,746)	(27,120)
Earnings from continuing operations	52,709	31,153
(Loss) earnings from discontinued operations, net of tax	(944)	3,684
Net earnings	51,765	34,837
Net loss (earnings) attributable to noncontrolling interests	1,872	(359)
Net earnings attributable to IAC shareholders	$53,637	$34,478
Per share information attributable to IAC shareholders:		
Basic earnings per share from continuing operations	$0.65	$0.37
Diluted earnings per share from continuing operations	$0.62	$0.34
Basic earnings per share	$0.64	$0.42
Diluted earnings per share	$0.61	$0.38
Dividends declared per share	$0.24	$0.12
Non-cash compensation expense by function:		
Cost of revenue	$620	$1,724
Selling and marketing expense	386	1,122
General and administrative expense	10,780	17,117
Product development expense	877	1,503
Total non-cash compensation expense	$12,663	$21,466

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 March 31,	
	2013	2012
	(In thousands)	
Net earnings	$51,765	$34,837
Other comprehensive (loss) income, net of tax:		
Change in foreign currency translation adjustment	(8,423)	7,085
Change in net unrealized (losses) gains on available-for-sale securities (net of tax benefit of $824 in 2013 and tax provision of $12,579 in 2012)	(4,976)	24,724
Total other comprehensive (loss) income	(13,399)	31,809
Comprehensive income	38,366	66,646
Comprehensive loss (income) attributable to noncontrolling interests	3,344	(1,272)
Comprehensive income attributable to IAC shareholders	$41,710	$65,374

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 Noncontrolling Interests	Common Stock $.001 Par Value $	Shares	Class B Convertible Common Stock $.001 Par Value $	Shares	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total IAC Shareholders' Equity	No Int
		(In thousands)									
Balance as of 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,
Net (loss) earnings for the three months ended March 31, 2013	(1,285)	—	—	—	—	—	53,637	—	—	53,637	(587
Other comprehensive loss, net of tax	(584)	—	—	—	—	—	—	(11,927)	—	(11,927)	(888
Non-cash compensation expense	—	—	—	—	—	12,820	—	—	—	12,820	(157
Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes	—	—	—	—	—	(4,231)	—	—	1	(4,230)	—
Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other	—	—	—	—	—	12,332	—	—	—	12,332	—
Dividends	—	—	—	—	—	(21,597)	—	—	—	(21,597)	—
Purchase of treasury stock	—	—	—	—	—	—	—	—	(60,138)	(60,138)	—
Adjustment of redeemable noncontrolling	2,659	—	—	—	—	(2,659)	—	—	—	(2,659)	—

interests to fair value											
Transfer from noncontrolling interests to redeemable noncontrolling interests	304	—	—	—	—	—	—	—	—	—	(304
Other	34	—	—	—	—	2,553	—	—	—	2,553	—
Balance as of March 31, 2013	$59,254	$251	250,982	$16	16,157	$11,606,585	$(264,882)	$(44,096)	$(9,661,355)	$1,636,519	$49,

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

IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings	$51,765	$34,837
Less: (loss) earnings from discontinued operations, net of tax	(944)	3,684
Earnings from continuing operations	52,709	31,153
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Non-cash compensation expense	12,663	21,466
Depreciation	14,016	12,115
Amortization of intangibles	14,078	7,041
Deferred income taxes	(11,010)	3,129
Equity in losses of unconsolidated affiliates	91	5,901
Acquisition-related contingent consideration fair value adjustment	1,458	—
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(4,635)	(10,537)
Other current assets	(8,001)	(8,950)
Accounts payable and other current liabilities	(12,929)	(34,991)
Income taxes payable	22,666	10,843
Deferred revenue	7,827	19,622
Other, net	3,429	2,258
Net cash provided by operating activities attributable to continuing operations	92,362	59,050
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(29,194)	(10,267)
Capital expenditures	(33,638)	(9,633)
Proceeds from maturities and sales of marketable debt securities	12,500	18,343
Purchases of marketable debt securities	—	(10,012)
Proceeds from sales of long-term investments	214	8,058
Purchases of long-term investments	(975)	(470)
Other, net	(1,051)	(8,253)
Net cash used in investing activities attributable to continuing operations	(52,144)	(12,234)
Cash flows from financing activities attributable to continuing operations:		
Purchase of treasury stock	(88,605)	(222,863)
Issuance of common stock, net of withholding taxes	552	99,212
Dividends	(21,429)	(10,573)
Excess tax benefits from stock-based awards	12,530	6,477
Principal payments on long-term debt	(15,844)	—
Other, net	(1,101)	22
Net cash used in financing activities attributable to continuing operations	(113,897)	(127,725)
Total cash used in continuing operations	(73,679)	(80,909)
Total cash provided by (used in) discontinued operations	2,425	(368)
Effect of exchange rate changes on cash and cash equivalents	(4,966)	1,220
Net decrease in cash and cash equivalents	(76,220)	(80,057)
Cash and cash equivalents at beginning of period	749,977	704,153
Cash and cash equivalents at end of period	$673,757	$624,096

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 family 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 included in the Company's annual report on Form 10-K for the year ended December 31, 2012.
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

months ended March 31, 2013 and 2012, revenue earned from Google is $376.1 million and $328.9 million, respectively. This revenue is earned by the businesses comprising the Search & Applications segment. Accounts receivable related to revenue earned from Google totaled $137.0 million at March 31, 2013 and $125.3 million at December 31, 2012.

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 months ended March 31, 2013, the Company recorded an income tax provision for continuing operations of $25.7 million, which represents an effective income tax rate of 33%. The effective rate for the three months ended March 31, 2013 is lower than the statutory rate of 35% due primarily to foreign income taxed at lower rates and research credits, partially offset by state taxes. For the three months ended March 31, 2012, the Company recorded an income tax provision for continuing operations of $27.1 million, which represents an effective income tax rate of 47%. The effective rate for the three months ended March 31, 2012 is higher than the statutory rate of 35% due principally to an increase in reserves for and interest on reserves for income tax contingencies and state taxes, partially offset by foreign income taxed at lower rates.

At March 31, 2013 and December 31, 2012, unrecognized tax benefits, including interest, are $497.8 million and $496.8 million, respectively. Unrecognized tax benefits, including interest, for the three months ended March 31, 2013 increased by $1.0 million due principally to interest, partially offset by a net decrease in deductible timing differences. Of the total unrecognized tax benefits at March 31, 2013, $469.8 million is included in "Income taxes payable," $15.0 million relates to deferred tax assets included in "Deferred income taxes" and $13.0 million is included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheet. Included in unrecognized tax benefits at March 31, 2013 is $73.6 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 March 31, 2013 are subsequently recognized, $110.5 million and $223.3 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 March 31, 2013 is a $1.3 million and a $1.0 million expense, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. At March 31, 2013 and December 31, 2012, the Company has accrued $120.9 million and $117.5 million, respectively, for the payment of interest. At March 31, 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 not yet been submitted to the Joint Committee of Taxation for approval. The statute of limitations for the years 2001 through 2009 has been extended to 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

IAC/INTERACTIVECORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

unrecognized tax benefits could decrease by $132.8 million within twelve months of the current reporting date, of which approximately $14.4 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 $108.0 million using the March 31, 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 months ended March 31, 2012, pro forma adjustments reflected below include an increase of $5.0 million in amortization of intangible assets.

	Three Months Ended March 31, 2012 (In thousands, except per share data)
Revenue	$664,545
Net earnings attributable to IAC shareholders	$35,691
Basic earnings per share attributable to IAC shareholders	$0.43
Diluted earnings per share attributable to IAC shareholders	$0.39

NOTE 4—MARKETABLE SECURITIES

At March 31, 2013, current available-for-sale marketable securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Corporate debt security	$1,007	$14	$—	$1,021
Total debt security	1,007	14	—	1,021
Equity security	—	4,793	—	4,793
Total marketable securities	$1,007	$4,807	$—	$5,814

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IAC/INTERACTIVECORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated 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.

The contractual maturity of the debt security classified as available-for-sale at March 31, 2013 is as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due after one year through two years	$1,007	$1,021
Total	$1,007	$1,021

At March 31, 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 March 31,	
	2013	2012
	(In thousands)	
Proceeds from maturities and sales of available-for-sale marketable securities	$12,500	$26,401
Gross realized gains	—	1,783
Gross realized losses	—	—

Gross realized gains and losses from the maturities and sales of available-for-sale marketable securities are included in "Other 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

The Company categorizes its assets and liabilities 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:

- 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

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IAC/INTERACTIVECORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

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 assets and liabilities that are measured at fair value on a recurring basis:

	March 31, 2013			
	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
	(In thousands)			
Assets:				
Cash equivalents:				
Money market funds	$373,770	$—	$—	$373,770
Commercial paper	—	89,987	—	89,987
Time deposits	—	93,843	—	93,843
Marketable securities:				
Corporate debt security	—	1,021	—	1,021
Equity security	4,793	—	—	4,793
Long-term investments:				
Auction rate security	—	—	8,580	8,580
Marketable equity securities	27,152	—	—	27,152
Total	$405,715	$184,851	$8,580	$599,146
Liabilities:				
Contingent consideration arrangement	$—	$—	$(42,295)	$(42,295)

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IAC/INTERACTIVECORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

	December 31, 2012			
	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
	(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 following table presents the changes in the Company's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Three Months Ended March 31,			
	2013		2012	
	Auction Rate Security	Contingent Consideration Arrangement	Auction Rate Security	Contingent Consideration Arrangement
	(In thousands)			
Balance at January 1	$8,100	$—	$5,870	$(10,000)
Total net gains (losses) (unrealized):				
Included in earnings	—	(1,458)	—	—
Included in other comprehensive income	480	—	1,850	—
Fair value at date of acquisition	—	(40,837)	—	—
Settlements	—	—	—	10,000
Balance at March 31	$8,580	$(42,295)	$7,720	$—

There are no gains or losses included in earnings for the three months ended March 31, 2012 relating to the Company's assets and liabilities 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 $1.4 million and $1.9 million at March 31, 2013 and December 31, 2012, respectively. The unrealized losses are included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet. At March 31, 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 March 31, 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.

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Contingent Consideration Arrangement
The contingent consideration arrangement arose from the acquisition of Twoo in the first quarter of 2013 (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 will remeasure the fair value of the contingent consideration arrangement each reporting period, and changes will be recognized in “General and administrative expense” in the Company's consolidated statement of operations. During the first quarter of 2013, the fair value of the contingent consideration arrangement increased by $1.5 million due to interest accretion. The contingent consideration arrangement liability at March 31, 2013 includes a current portion of $1.3 million and non-current portion of $41.0 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.
NOTE 6—FINANCIAL INSTRUMENTS
The fair value of the financial instruments listed below have been determined by the Company using available market information and appropriate valuation methodologies.

	March 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Assets:				
Cash and cash equivalents	$673,757	$673,757	$749,977	$749,977
Marketable securities	5,814	5,814	20,604	20,604
Long-term marketable equity securities	27,152	27,152	31,244	31,244
Liabilities:				
Current maturities of long-term debt	$—	$—	$(15,844)	$(15,875)
Contingent consideration arrangement	(42,295)	(42,295)	—	—
Long-term debt, net of current maturities	(580,000)	(572,784)	(580,000)	(581,994)

The carrying value of cash equivalents approximates fair value due to their short-term maturity. The fair value of long-term debt, including current maturities, is estimated using quoted market prices or indices for similar liabilities and taking into consideration other factors such as credit quality and maturity. See Note 5 for information on the fair value of marketable securities and the fair value of the contingent consideration arrangement. The fair value of long-term debt, including current maturities, is determined only for disclosure purposes and is based on Level 3 inputs.
The cost basis of the Company's long-term marketable equity securities at March 31, 2013 and December 31, 2012 is $42.1 million, with gross unrealized losses of $14.9 million and $10.8 million, respectively, included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet. At March 31, 2013, the Company's

long-term marketable equity securities are both in an unrealized loss position. The Company evaluated the near term prospects of the issuers in

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relation to the severity and duration of the unrealized losses and based on that evaluation and the Company's ability and intent to hold these securities for a reasonable period of time sufficient for an expected recovery of fair value, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2013.

At March 31, 2013 and December 31, 2012, the carrying values of the Company's investments accounted for under the cost method totaled $114.3 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.

NOTE 7—LONG-TERM DEBT

The balance of long-term debt is comprised of:

	March 31, 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 which commenced July 15, 2003	$—	$15,844
4.75% Senior Notes due December 15, 2022 (the "2012 Senior Notes"); interest payable each June 15 and December 15 commencing June 15, 2013	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 which commenced March 1, 2006	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 in a private offering. The 2012 Senior Notes were issued at par. Certain domestic subsidiaries have unconditionally guaranteed the 2012 Senior Notes. See Note 14 for guarantor and non-guarantor financial information.

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 25 basis points. At March 31, 2013, there are no outstanding borrowings under the revolving credit facility. IAC's obligation under the 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 8—ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents items reclassified out of accumulated other comprehensive loss into earnings:

	Foreign Currency Translation Adjustment	Unrealized Losses On Available-For-Sale Securities	Accumulated Other Comprehensive Loss
	(In thousands)		
Balance as of December 31, 2012	$(25,073)	$ (7,096)	$(32,169)
Other comprehensive loss before reclassifications	(6,951)	(4,975)	(11,926)
	—	(1)	(1)

Amounts reclassified from accumulated other comprehensive loss			
Net current period other comprehensive loss	(6,951)	(4,976)	(11,927)
Balance as of March 31, 2013	$(32,024)	$ (12,072)	$(44,096)

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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 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 months ended March 31, 2012 was less than $0.1 million.

NOTE 9—EARNINGS PER SHARE

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

	Three Months Ended March 31,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Earnings from continuing operations	$52,709	$52,709	$31,153	$31,153
Net loss (earnings) attributable to noncontrolling interests	1,872	1,872	(359)	(359)
Earnings from continuing operations attributable to IAC shareholders	54,581	54,581	30,794	30,794
(Loss) earnings from discontinued operations attributable to IAC shareholders	(944)	(944)	3,684	3,684
Net earnings attributable to IAC shareholders	$53,637	$53,637	$34,478	$34,478
Denominator:				
Weighted average basic shares outstanding	84,218	84,218	82,801	82,801
Dilutive securities including stock options, warrants and RSUs(a)(b)	—	3,162	—	8,917
Denominator for earnings per share—weighted average shares(a)(b)	84,218	87,380	82,801	91,718
Earnings (loss) per share attributable to IAC shareholders:				
Earnings per share from continuing operations	$0.65	$0.62	$0.37	$0.34
Discontinued operations	(0.01)	(0.01)	0.05	0.04
Earnings per share	$0.64	$0.61	$0.42	$0.38

(a) 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") and performance-based stock units ("PSUs"). As of May 8, 2012, there are no warrants outstanding. For the three months ended March 31, 2013 and 2012, approximately 3.4 million and 2.7 million shares, respectively, related to potentially dilutive securities are excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

(b) At March 31, 2013, there were approximately 0.1 million PSUs included in the calculation of diluted earnings per share, as their performance conditions have been met. Prior to September 30, 2012, no PSUs were included in diluted earnings per share. For the three months ended March 31, 2013 and 2012, approximately 0.1 million and 3.1 million PSUs are excluded from the calculation of diluted earnings per share.

NOTE 10—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 and executive management view 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 separate presentation as separate operating segments.

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	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Revenue:		
Search & Applications	$397,192	$343,198
Match	188,862	174,275
Local	74,945	77,119
Media	45,315	15,911
Other	36,045	30,206
Inter-segment elimination	(110)	(109)
Total	$742,249	$640,600

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Operating Income (Loss):		
Search & Applications	$86,983	$73,490
Match	40,959	29,906
Local	(3,403)	3,789
Media	(8,828)	(6,669)
Other	(3,222)	(1,714)
Corporate	(27,938)	(36,037)
Total	$84,551	$62,765

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Operating Income Before Amortization:		
Search & Applications	$93,649	$73,500
Match	46,303	37,328
Local	(1,001)	3,950
Media	(8,374)	(6,401)
Other	(2,499)	(1,398)
Corporate	(15,328)	(15,707)
Total	$112,750	$91,272

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	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Depreciation:		
Search & Applications	$3,865	$3,291
Match	4,677	3,537
Local	2,346	2,801
Media	523	179
Other	302	244
Corporate	2,303	2,063
Total	$14,016	$12,115

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 March 31,	
	2013	2012
	(In thousands)	
Revenue:		
United States	$514,614	$445,660
All other countries	227,635	194,940
Total	$742,249	$640,600

	March 31,	December 31,
	2013	2012
	(In thousands)	
Long-lived assets (excluding goodwill and intangible assets):		
United States	$271,502	$251,379
All other countries	21,780	19,133
Total	$293,282	$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 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:

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	Three Months Ended March 31, 2013				
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Intangibles	Acquisition-related Contingent Consideration Fair Value Adjustment	Operating Income (Loss)
	(In thousands)				
Search & Applications	$93,649	$(3)	$(6,663)	$ —	$86,983
Match	46,303	157	(4,043)	(1,458)	40,959
Local	(1,001)	—	(2,402)	—	(3,403)
Media	(8,374)	(205)	(249)	—	(8,828)
Other	(2,499)	(2)	(721)	—	(3,222)
Corporate	(15,328)	(12,610)	—	—	(27,938)
Total	$112,750	$(12,663)	$(14,078)	$ (1,458)	$84,551

	Three Months Ended March 31, 2012			
	Operating Income Before Amortization	Non-Cash Compensation Expense	Amortization of Intangibles	Operating Income (Loss)
	(In thousands)			
Search & Applications	$73,500	$(8)	$(2)	$73,490
Match	37,328	(907)	(6,515)	29,906
Local	3,950	—	(161)	3,789
Media	(6,401)	(268)	—	(6,669)
Other	(1,398)	47	(363)	(1,714)
Corporate	(15,707)	(20,330)	—	(36,037)
Total	$91,272	$(21,466)	$(7,041)	$62,765

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NOTE 11—CONSOLIDATED FINANCIAL STATEMENT DETAILS

	March 31, 2013	December 31, 2012
	(In thousands)	
Property and equipment, net:		
Buildings and leasehold improvements	$245,639	$238,652
Computer equipment and capitalized software	207,543	197,402
Furniture and other equipment	44,253	42,949
Projects in progress	36,189	19,303
Land	5,117	5,117
	538,741	503,423
Accumulated depreciation and amortization	(245,459)	(232,911)
Property and equipment, net	$293,282	$270,512

	Three Months Ended March 31, 2013	2012
	(In thousands)	
Other income, net:		
Interest income	$474	$886
Foreign currency exchange gains	1,364	348
Gain on sales of investments	147	1,764
Other	(327)	(242)
Other income, net	$1,658	$2,756

NOTE 12—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 13—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.

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NOTE 14—GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

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 March 31, 2013 and December 31, 2012 and for the three months ended March 31, 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 March 31, 2013:

	IAC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
	(In thousands)				
Cash and cash equivalents	$430,356	$—	$ 243,401	$—	$673,757
Marketable securities	5,814	—	—	—	5,814
Accounts receivable, net	35	148,666	86,480	—	235,181
Other current assets	26,558	60,849	55,106	(1,583)	140,930
Intercompany receivables	—	536,367	1,790,850	(2,327,217)	—
Property and equipment, net	4,053	178,444	110,785	—	293,282
Goodwill	—	1,189,864	484,356	—	1,674,220
Intangible assets, net	—	331,408	147,376	—	478,784
Investment in subsidiaries	4,463,712	674,547	—	(5,138,259)	—
Other non-current assets	322,411	16,895	111,812	(172,840)	278,278
Total assets	$5,252,939	$3,137,040	$ 3,030,166	$(7,639,899)	$3,780,246
Accounts payable, trade	$3,983	$42,672	$ 31,513	$—	$78,168
Other current liabilities	33,262	245,294	236,232	(1,517)	513,271
Long-term debt, net of current maturities	500,000	80,000	—	—	580,000
Income taxes payable	439,991	25,554	12,407	3,956	481,908
Intercompany liabilities	2,638,794	—	(311,577)	(2,327,217)	—
Other long-term liabilities	390	90,425	467,202	(176,862)	381,155
Redeemable noncontrolling interests	—	1,379	57,875	—	59,254
IAC shareholders' equity	1,636,519	2,651,716			