# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 8-K

**CURRENT REPORT**
**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): July 2, 2014

# IAC/INTERACTIVECORP
(Exact name of registrant as specified in charter)

| **Delaware** | **0-20570** | **59-2712887** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| **555 West 18th Street, New York, NY** | **10011** |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: **(212) 314-7300**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**ITEM 8.01. Other Events**

During the first quarter of 2014, IAC/InterActiveCorp (the “Company” or the “Registrant”) realigned its reportable segments as follows:

- The Company created a new segment called The Match Group that includes Match, which was previously reported as its own separate segment, and DailyBurn and Tutor, which were previously in the Media and Other segments, respectively.
- The businesses within the Local segment (HomeAdvisor, Felix and, for periods prior to July 1, 2013, CityGrid Media) were moved to the eCommerce segment, formerly called the Other segment.
- There were no changes to the Search & Applications segment.

In addition, the Company introduced Adjusted EBITDA, a new non-GAAP financial measure, beginning with the first quarter of 2014. Going forward, the Company plans to regularly report Adjusted EBITDA and will no longer report Operating Income Before Amortization. We believe Adjusted EBITDA is a useful measure for analysts and investors as this measure allows a more meaningful comparison between our performance and that of our competitors. Moreover, our management uses this measure internally to evaluate the performance of our business as a whole and our individual business segments.

Lastly, during the first half of 2014 certain domestic subsidiaries of the Company were named as guarantors of our 4.875% Senior Notes due November 30, 2018 and 4.75% Senior Notes due December 15, 2022.

The following items of the 2013 Form 10-K are being updated retrospectively to reflect the above-mentioned changes in the Company's reportable business segments, new non-GAAP measure and changes in the Company's guarantors:

1. Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
2. Part II - Item 8. Consolidated Financial Statements and Supplementary Data:
   - Note 1 - Organization
   - Note 2 - Summary of Significant Accounting Policies
   - Note 6 - Goodwill and Intangibles Assets
   - Note 15 - Segment Information
   - Note 22 - Guarantor and Non-Guarantor Financial Information

The above sections, as updated, are included in Exhibit 99.1 to this Current Report on Form 8-K and are incorporated herein by reference. This Current Report on Form 8-K should be read in conjunction with the 2013 Form 10-K, provided that the foregoing sections supersede the information included in "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Consolidated Financial Statements and Supplementary Data" contained in the 2013 Form 10-K. More current information is contained in the Company's Quarterly Reports on Form 10-Q for the quarterly period ended March 31, 2014 (the "Form 10-Q") as filed with the SEC.

**ITEM 9.01. Financial Statements and Exhibits**

| Exhibit No. | Description |
|---|---|
| 23.1 | Consent of Ernst & Young LLP |
| 99.1 | 2013 Form 10-K: |
| | Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations |
| | Part II - Item 8. Consolidated Financial Statements and Supplementary Data |
| 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 |

## 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 hereunto duly authorized.

IAC/InterActiveCorp

By: /s/ Gregg Winiarski

Name: Gregg Winiarski

Title: *Senior Vice President and General Counsel*

Date: July 2, 2014

**Exhibit 23.1**

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following registration statements (and any amendments thereto) of IAC/InterActiveCorp of our report dated February 26, 2014 (except for Notes 1, 2, 6, 15 and 22, as to which the date is July 2, 2014), with respect to the consolidated financial statements and schedule of IAC/InterActiveCorp for the year ended December 31, 2013, included in this Current Report on Form 8-K dated July 2, 2014.

**COMMISSION FILE NO.:**
Form S-8, No. 333-127410
Form S-8, No. 333-127411
Form S-4, No. 333-124303
Form S-8, No. 333-146940
Form S-8, No. 333-154875
Form S-8, No. 333-174538
Form S-8, No. 333-192186
Form S-4, No. 333-192854

/s/ ERNST & YOUNG LLP

New York, New York
July 2, 2014

**Exhibit 99.1**

# PART II

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

## 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 and Vimeo. Focused on the areas of search, applications, online dating, media and eCommerce, IAC's family of websites is one of the largest in the world, with over a billion monthly visits across more than 100 countries.

During the first quarter of 2014, IAC realigned its reportable segments as follows:

- The Company created a new segment called The Match Group that includes Match, which was previously reported as its own separate segment, and DailyBurn and Tutor, which were previously in the Media and Other segments, respectively.
- The businesses within the Local segment (HomeAdvisor, Felix and, for periods prior to July 1, 2013, CityGrid Media) were moved to the eCommerce segment, formerly called the Other segment.
- There were no changes to the Search & Applications segment.

In addition, the Company introduced Adjusted EBITDA, a new non-GAAP financial measure, beginning with the first quarter of 2014. Going forward, the Company plans to regularly report Adjusted EBITDA and will no longer report Operating Income Before Amortization. We believe Adjusted EBITDA is a useful measure for analysts and investors as this measure allows a more meaningful comparison between our performance and that of our competitors. Moreover, our management uses this measure internally to evaluate the performance of our business as a whole and our individual business segments.

### Sources of Revenue

Substantially all of the revenue from our Search & Applications segment is derived from online advertising. This revenue is primarily attributable to our services agreement with Google Inc. ("Google"). The revenue earned from The Match Group segment is derived primarily from subscription fees for its subscription-based online personals services; and also derives revenue from online advertising. The revenue earned by our Media segment is derived from advertising, media production and subscription fees. Our eCommerce segment consists of HomeAdvisor, Felix and Shoebuy. HomeAdvisor's revenue is derived from fees paid by members of its network of home services professionals for consumer leads and from subscription sales to service professionals as well as from one-time fees charged upon enrollment and activation of new home services professionals in its network. Felix's revenue is derived from online advertising. Shoebuy's revenue is derived principally from merchandise sales.

### Strategic Partnerships, Advertiser Relationships and Online Advertising Spend

A significant component of the Company's revenue is attributable to a services agreement with Google, which expires on March 31, 2016. For the years ended December 31, 2013, 2012 and 2011, revenue earned from Google was $1.5 billion, $1.4 billion and $970.4 million, respectively. This revenue is earned by the businesses comprising the Search & Applications segment.

We market and offer our products and services directly to consumers through branded websites and subscriptions, allowing consumers to transact directly with us in a convenient manner. We have made, and expect to continue to make, substantial investments in online and offline advertising to build our brands and drive traffic to our websites and consumers and advertisers to our businesses.

We pay traffic acquisition costs, which consist of payments to partners who distribute our B2B customized browser-based applications, integrate our paid listings into their websites or direct traffic to our websites. We also pay to market and distribute our services on third-party distribution channels, such as internet portals and search engines. In addition, some of our businesses manage affiliate programs, pursuant to which we pay commissions and fees to third parties based on revenue earned. These distribution channels might also offer their own products and services, as well as those of other third parties, which compete with those we offer.

The cost of acquiring new consumers through online and offline third-party distribution channels has increased, particularly in the case of online channels as internet commerce continues to grow and competition in the markets in which IAC's businesses operate increases.

**Factors Affecting Results**

In 2013, we delivered 8% revenue growth, 20% Adjusted EBITDA growth and 32% Operating Income growth. Results were primarily driven by the Search & Applications and The Match Group segments. The results of our Search & Applications segment benefited from a full year contribution from The About Group, which was acquired on September 24, 2012; and CityGrid Media, which has been moved from the eCommerce segment to the Search & Applications segment, effective July 1, 2013, following its reorganization. The results from The Match Group segment benefited from increased subscribers; which is due, in part, to recent acquisitions, the most significant being Twoo, which was acquired on January 4, 2013.

Other events affecting year-over-year comparability are (i) the closure of the Newsweek print business and subsequent sale of Newsweek in August 2013 (reflected in the Media segment); (ii) the sale of the Rezbook assets in July 2013 (reflected in the eCommerce segment); and (iii) the acquisition of Tutor, acquired December 14, 2012 (reflected in The Match Group segment).

***Results of Operations for the Years Ended December 31, 2013, 2012 and 2011***

***Revenue***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | $ Change | % Change | 2012 | $ Change | % Change | 2011 |
| | (Dollars in thousands) | | | | | | |
| Search & Applications | $ 1,604,950 | $ 139,155 | 9 % | $ 1,465,795 | $ 425,288 | 41% | $ 1,040,507 |
| The Match Group | 805,390 | 91,168 | 13 % | 714,222 | 195,027 | 38% | 519,195 |
| Media | 191,434 | 27,383 | 17 % | 164,051 | 95,055 | 138% | 68,996 |
| eCommerce | 422,066 | (35,116) | (8)% | 457,182 | 25,699 | 6% | 431,483 |
| Inter-segment elimination | (853) | (536) | (170)% | (317) | 420 | 57% | (737) |
| Total | $ 3,022,987 | $ 222,054 | 8 % | $ 2,800,933 | $ 741,489 | 36% | $ 2,059,444 |

*For the year ended December 31, 2013 compared to the year ended December 31, 2012*

Search & Applications revenue increased 9% to $1.6 billion, reflecting strong growth from Websites (which includes Ask.com, About.com, Dictionary.com and Citysearch.com (among other properties)) and Applications (which includes our direct to consumer downloadable applications operations (B2C) and our partnership operations (B2B)). Websites revenue grew 11% to $786.9 million, reflecting the contribution from The About Group, acquired September 24, 2012, and CityGrid Media, which has been moved from the eCommerce segment and included in the Search & Applications segment, effective July 1, 2013, following its reorganization. The About Group revenue increased $108.4 million to $138.6 million in 2013, as it was not in the full prior year period. Applications revenue grew 8% to $818.0 million, driven by increased contributions from existing and new B2C products.

The Match Group revenue increased 13% to $805.4 million driven by a 10% increase in Dating revenue. Dating North America revenue (referred to as "North America" which includes Match.com, Chemistry, People Media, OkCupid and other dating businesses operating within the United States and Canada) and Dating International revenue (referred to as "International" which includes all dating businesses operating outside of the United States and Canada) increased 10% to $523.7 million and 12% to $264.5 million, respectively. The growth in Dating revenue was driven by increased subscribers. North America and International paid subscribers increased 18% and 23%, respectively. International revenue further benefited from the contribution of Twoo, which was acquired January 4, 2013. International revenue in 2012 was negatively impacted by the write-off of $5.2 million of deferred revenue in connection with the acquisition of Meetic. Non-dating revenue (consisting of DailyBurn and Tutor) increased to $17.2 million due primarily to the contribution from Tutor, an online tutoring solution acquired December 14, 2012.

Media revenue increased 17% to $191.4 million primarily due to strong growth from Electus and Vimeo, partially offset by the closure of the Newsweek print business in December 2012.

eCommerce revenue decreased 8% to $422.1 million due to the move of CityGrid Media from the eCommerce segment to the Search & Applications segment, effective July 1, 2013, following its reorganization, and a decline at HomeAdvisor. Partially offsetting these declines is the contribution from Felix, a pay-per-call advertising service acquired August 20, 2012, and increased sales at Shoebuy. HomeAdvisor domestic revenue was negatively impacted by an 11% decrease in accepted service requests due primarily to its domain name change at the end of 2012.

*For the year ended December 31, 2012 compared to the year ended December 31, 2011*

Search & Applications revenue increased 41% to $1.5 billion, reflecting strong growth from both Applications and Websites. Applications revenue grew 39% to $759.7 million, driven by 16% query growth and year-over-year monetization gains, which were driven by increased contributions from existing and new partners and products. Websites revenue grew 43% to $706.1 million, reflecting 21% query growth driven primarily by increased marketing and site optimization. The growth in Websites revenue also reflects the contribution from The About Group, acquired September 24, 2012, which had revenue of $30.1 million.

The Match Group revenue increased 38% to $714.2 million benefiting from the full year contribution of Meetic, which was consolidated beginning September 1, 2011 and an increase in subscribers. North America and International revenue increased 10% to $478.2 million and 183% to $235.3 million, respectively. North America paid subscribers increased 8%, partially offset by a decrease in International paid subscribers of 2% due primarily to lower subscriptions at our Latin American venture. Revenue at Meetic was $206.7 million and $46.1 million in 2012 and 2011, respectively; revenue was negatively impacted by the write-off of $5.2 million and $32.6 million, respectively, of deferred revenue in connection with its acquisition. Excluding Meetic in both years, total Dating revenue grew 7% to $506.8 million and International revenue declined 23% to $28.6 million.

Media revenue increased 138% to $164.1 million primarily due to the contribution from News_Beast, consolidated beginning June 1, 2012 following the Company's acquisition of a controlling interest, as well as strong growth from Electus and Vimeo.

eCommerce revenue increased 6% to $457.2 million, primarily reflecting growth from HomeAdvisor's operations. HomeAdvisor domestic revenue grew due to higher average lead acceptance fees. HomeAdvisor international revenue grew due to a 25% increase in accepted service requests and higher average lead acceptance fees. eCommerce revenue further benefited from the contribution of Felix, a pay-per-call advertising service acquired August 20, 2012, and higher reseller revenue from CityGrid Media, partially offset by a decline in direct sales revenue.

***Cost of revenue***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2013** | **$ Change** | **% Change** | **2012** | **$ Change** | **% Change** | **2011** |
| | | | | (Dollars in thousands) | | | |
| Cost of revenue | $1,000,101 | $9,304 | 1% | $990,797 | $236,908 | 31% | $753,889 |
| As a percentage of revenue | 33% | | | 35% | | | 37% |

Cost of revenue consists primarily of traffic acquisition costs, which 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.

*For the year ended December 31, 2013 compared to the year ended December 31, 2012*

Cost of revenue in 2013 increased from 2012 primarily due to increases of $15.0 million from The Match Group and $10.1 million from Search & Applications, partially offset by a decrease of $13.4 million from eCommerce. The increase in cost of revenue from The Match Group is primarily due to recent acquisitions at Dating and an increase in content acquisition costs from Tutor, which was acquired December 14, 2012. Cost of revenue from Search & Applications increased primarily due to an increase in content acquisition costs resulting from the acquisition of The About Group and the inclusion of CityGrid Media in the Search & Applications segment, effective July 1, 2013, partially offset by a decrease of $7.7 million in traffic acquisition costs driven primarily by decreased revenue from Ask.com. The decrease in cost of revenue from eCommerce is principally due to the move of CityGrid Media to the Search & Applications segment, partially offset by an increase in the cost of products sold at Shoebuy resulting from increased sales and an increase in traffic acquisition costs from Felix. As a percentage of revenue, cost of revenue in 2013 decreased from 2012 primarily due to the transition of Newsweek from a print business to a digital only publication in December 2012 (which was subsequently sold in August 2013) and a decrease in traffic acquisition costs due to an increase in the proportion of revenue from Websites that resulted from increased online marketing.

*For the year ended December 31, 2012 compared to the year ended December 31, 2011*

Cost of revenue in 2012 increased from 2011 primarily due to increases of $125.8 million from Search & Applications, $82.3 million from Media and $17.8 million from The Match Group. The increase in cost of revenue from

Search & Applications was primarily due to an increase of $122.0 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 that resulted from increased online marketing. Cost of revenue from Media increased primarily due to News_Beast, consolidated beginning June 1, 2012, and increased production costs at Electus related to the increase in its revenue. The increase from The Match Group is due to Meetic, which was included for only part of the prior year, partially offset by a decrease in customer acquisition costs.

***Selling and marketing expense***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | $ Change | % Change | 2012 | $ Change | % Change | 2011 |
| | (Dollars in thousands) | | | | | | |
| Selling and marketing expense | $964,131 | $69,586 | 8% | $894,545 | $277,347 | 45% | $617,198 |
| As a percentage of revenue | 32% | | | 32% | | | 30% |

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.

*For the year ended December 31, 2013 compared to the year ended December 31, 2012*

Selling and marketing expense in 2013 increased from 2012 primarily due to increases of $42.7 million from Search & Applications, $24.0 million from The Match Group and $6.8 million from Media. The increase in selling and marketing expense from Search & Applications is primarily due to increases of $28.3 million and $13.8 million in online marketing spend and compensation and other employee-related costs, respectively. The increase in online marketing spend from Search & Applications is primarily related to new B2C downloadable applications and the inclusion of The About Group beginning September 24, 2012. Selling and marketing expense from The Match Group increased primarily due to increases of $14.3 million and $8.4 million in advertising and promotional expenditures and compensation and other employee-related costs, respectively. The increase in advertising and promotional expenditures is primarily due to an increase in offline marketing spend. The increase in compensation and other employee-related costs is primarily due to an increase in headcount at Meetic and recent acquisitions. The increase in selling and marketing expense from Media is primarily due to increases of $5.7 million in online marketing spend at Vimeo.

*For the year ended December 31, 2012 compared to the year ended December 31, 2011*

Selling and marketing expense in 2012 increased from 2011 primarily due to increases of $187.8 million from Search & Applications and $81.1 million from The Match Group. The increase in selling and marketing expense from Search & Applications is primarily due to an increase of $180.6 million in online marketing related to Ask.com and existing B2C downloadable applications. Selling and marketing expense at The Match Group increased primarily due to Meetic, which was included for only part of the prior year, and an increase in offline marketing spend.

***General and administrative expense***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | $ Change | % Change | 2012 | $ Change | % Change | 2011 |
| | (Dollars in thousands) | | | | | | |
| General and administrative expense | $372,470 | $(13,618) | (4)% | $386,088 | $65,026 | 20% | $321,062 |
| As a percentage of revenue | 12% | | | 14% | | | 16% |

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.

*For the year ended December 31, 2013 compared to the year ended December 31, 2012*

General and administrative expense in 2013 decreased from 2012 primarily due to decreases of $25.3 million from Corporate, $9.2 million from eCommerce and $6.4 million from Media, partially offset by increases of $14.9 million from The Match Group and $12.4 million from Search & Applications. General and administrative expense from Corporate decreased primarily due to a decrease of $25.5 million in non-cash compensation expense related primarily to the vesting of certain awards and an increase in the number of awards forfeited as compared to the prior year. The decrease in general and administrative expense from eCommerce is primarily due to the inclusion of an $8.4 million gain on the sale of the Rezbook assets in July 2013. General and administrative expense from Media decreased primarily due to the inclusion in the prior year of $7.0 million in restructuring costs related to the transition of Newsweek to a digital only publication and a $6.3 million gain related to the subsequent sale of Newsweek in August 2013, partially offset by an increase in compensation and other employee-related costs related to the growth in Vimeo. The increase in general and administrative expense from The Match Group is primarily due to recent acquisitions and an increase in professional fees due, in part, to transaction fees related primarily to the Meetic tender offer. General and administrative expense from Search & Applications increased primarily due to the inclusion of The About Group beginning September 24, 2012. As a percentage of revenue, general and administrative expense in 2013 decreased from 2012 primarily due to the gain on the sale of the Rezbook assets in July 2013 and the inclusion in the prior year of restructuring costs related to Newsweek and the gain related to its subsequent sale in August 2013.

*For the year ended December 31, 2012 compared to the year ended December 31, 2011*

General and administrative expense in 2012 increased from 2011 primarily due to increases of $29.9 million from Media, $13.8 million from eCommerce, $11.7 million from The Match Group and $7.7 million from Search & Applications. As a percentage of revenue, general and administrative expense in 2012 decreased from 2011 primarily due to operating expense leverage. The increase in general and administrative expense from Media resulted primarily from the inclusion of News_Beast, consolidated beginning June 1, 2012, which includes $7.0 million in restructuring costs related to its transition to a digital only publication, as well as an increase in operating expenses at Electus. General and administrative expense from eCommerce increased primarily due to higher compensation and employee-related expenses at both HomeAdvisor and CityGrid Media, the inclusion of Felix, which was acquired on August 20, 2012, and an increase in bad debt expense at HomeAdvisor. The increase in compensation and employee-related expenses at CityGrid Media was primarily due to employee termination costs associated with a reduction in workforce. The increase in general and administrative expense from The Match Group is primarily due to Meetic, which was included for only part of the prior year, partially offset by a decrease in professional fees due, in part, to the inclusion in the prior year of $4.0 million in transaction fees associated with the Meetic acquisition. General and administrative expense from Search & Applications increased primarily due to the acquisition of The About Group, and increases in compensation and other employee-related costs and professional fees.

***Product development expense***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | $ Change | % Change | 2012 | $ Change | % Change | 2011 |
| | (Dollars in thousands) | | | | | | |
| Product development expense | $141,330 | $23,647 | 20% | $117,683 | $26,926 | 30% | $90,757 |
| As a percentage of revenue | 5% | | | 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.

*For the year ended December 31, 2013 compared to the year ended December 31, 2012*

Product development expense in 2013 increased from 2012 primarily due to increases of $16.3 million from Search & Applications, $5.8 million from The Match Group and $4.4 million from Media. The increase in product development expense from Search & Applications is primarily due to an increase in compensation and other employee-related costs associated with the inclusion of The About Group beginning September 24, 2012, and an increase in headcount related to new B2C products. Product development expense from The Match Group increased primarily due to recent acquisitions. The increase in product development expense from Media is primarily due to News_Beast, consolidated beginning June 1, 2012.

*For the year ended December 31, 2012 compared to the year ended December 31, 2011*

Product development expense in 2012 increased from 2011 primarily due to increases of $12.8 million from The Match Group, $6.5 million from Search & Applications, $5.3 million from eCommerce and $4.1 million from Media. The increase in product development expense from The Match Group is primarily due to an increase in compensation and other employee-related costs due, in part, to an increase in headcount and Meetic, which was included for only part of the prior year. Product development expense from Search & Applications increased primarily due to the acquisition of The About Group on September 24, 2012. The increase in product development expense from eCommerce is primarily due to increased investment in Hatch Labs. The increase from Media is primarily due to News_Beast.

***Depreciation***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | $ Change | % Change | 2012 | $ Change | % Change | 2011 |
| | (Dollars in thousands) | | | | | | |
| Depreciation | $58,909 | $6,428 | 12% | $52,481 | $(4,238) | (7)% | $56,719 |
| As a percentage of revenue | 2% | | | 2% | | | 3% |

*For the year ended December 31, 2013 compared to the year ended December 31, 2012*

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

*For the year ended December 31, 2012 compared to the year ended December 31, 2011*

Depreciation in 2012 decreased from 2011 resulting primarily from certain fixed assets becoming fully depreciated in 2011 and the write-off of $4.9 million in capitalized software costs associated with the exit of the Company's direct sponsored listings business in 2011, partially offset by an increase in depreciation from The Match Group, primarily related to Meetic, which was included for only part of the prior year.

***Adjusted EBITDA***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | $ Change | % Change | 2012 | $ Change | % Change | 2011 |
| | (Dollars in thousands) | | | | | | |
| Search & Applications | $ 385,851 | $ 57,710 | 18 % | $ 328,141 | $ 97,677 | 42 % | $ 230,464 |
| The Match Group | 266,949 | 30,171 | 13 % | 236,778 | 72,793 | 44 % | 163,985 |
| Media | (16,976) | 21,579 | 56 % | (38,555) | (26,482) | (219)% | (12,073) |
| eCommerce | 22,890 | (8,310) | (27)% | 31,200 | (6,736) | (18)% | 37,936 |
| Corporate | (60,411) | (292) | — % | (60,119) | (4,933) | (9)% | (55,186) |
| Total | $ 598,303 | $ 100,858 | 20 % | $ 497,445 | $ 132,319 | 36 % | $ 365,126 |
| As a percentage of revenue | 20% | | | 18% | | | 18% |

*For the year ended December 31, 2013 compared to the year ended December 31, 2012*

Search & Applications Adjusted EBITDA increased 18% to $385.9 million, benefiting from the higher revenue noted above, partially offset by increases of $42.7 million in selling and marketing expense, $16.3 million in product development expense, $12.4 million in general and administrative expense and $10.1 million in cost of revenue. The increase in selling and marketing expense is primarily due to new B2C downloadable applications and the inclusion of The About Group, beginning September 24, 2012. 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 an increase in headcount related to new B2C products. The increase in costs of revenue is primarily due to an increase in content acquisition costs resulting from the acquisition of The About Group and the inclusion of CityGrid Media in the Search & Applications segment, effective July 1, 2013, partially offset by a decrease of $7.7 million in traffic acquisition costs driven primarily by decreased revenue from Ask.com.

The Match Group Adjusted EBITDA increased 13% to $266.9 million, primarily due to the revenue growth noted above, partially offset by increases of $24.0 million in selling and marketing expense, $15.0 million in cost of revenue, $14.9 million in general and administrative expense and $5.8 million in product development expense. The increase in selling and marketing expense is primarily due to increases in offline marketing spend and compensation and other employee-related costs due, in part, to an increase in headcount at Meetic and recent acquisitions. The increases in cost of revenue, general and administrative expense and product development expense are primarily due to recent acquisitions. General and administrative expense was also impacted by an increase in professional fees due, in part, to transaction fees related primarily to the Meetic tender offer.

Media Adjusted EBITDA loss decreased 56% to a loss of $17.0 million primarily due to the closure of the Newsweek print business and the inclusion of a $6.3 million gain related to the sale of Newsweek in August 2013.

eCommerce Adjusted EBITDA decreased 27% to $22.9 million reflecting the move of CityGrid Media to the Search & Applications segment, effective July 1, 2013, and $4.2 million in employee termination costs associated with the CityGrid Media reorganization that took place in the second quarter of 2013. Partially offsetting the decrease in Adjusted EBITDA is the inclusion of an $8.4 million gain on the sale of the Rezbook assets in July 2013.

*For the year ended December 31, 2012 compared to the year ended December 31, 2011*

Search & Applications Adjusted EBITDA increased 42% to $328.1 million, benefiting from the higher revenue noted above, partially offset by increases of $187.8 million in selling and marketing expense and $122.0 million in traffic acquisition costs. The increase in selling and marketing expense is driven primarily by increased online marketing expenditures related to Ask.com and existing B2C downloadable applications. The increase in traffic acquisition costs is primarily due to increased revenue from our B2B operations.

The Match Group Adjusted EBITDA increased 44% to $236.8 million, primarily due to the contribution from Meetic and higher Dating revenue noted above. Adjusted EBITDA, excluding Meetic, was impacted by increases in selling and marketing expense and product development expense, partially offset by decreases in cost of revenue and general and administrative expense. The increase in selling and marketing expense is primarily due to an increase in offline marketing spend. Product development expense increased from 2011 primarily due to an increase in compensation and other employee-related costs due, in part, to an increase in headcount. The decrease in cost of revenue is primarily due to lower customer acquisition costs. The decrease in general and administrative expense is primarily due to the inclusion in the prior year of $4.0 million in transaction fees associated with the Meetic acquisition.

Media Adjusted EBITDA loss increased by $26.5 million to a loss of $38.6 million reflecting the consolidation of News_Beast beginning June 1, 2012. Included in the results of News_Beast is $7.0 million in restructuring costs related to its transition to a digital only publication.

***Operating income (loss)***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | $ Change | % Change | 2012 | $ Change | % Change | 2011 |
| | (Dollars in thousands) | | | | | | |
| Search & Applications | $ 340,117 | $ 34,473 | 11% | $ 305,644 | $ 101,638 | 50 % | $ 204,006 |
| The Match Group | 228,155 | 27,989 | 14% | 200,166 | 65,680 | 49 % | 134,486 |
| Media | (20,803) | 26,099 | 56% | (46,902) | (33,696) | (255)% | (13,206) |
| eCommerce | (61) | (15,384) | NM | 15,323 | (7,351) | (32)% | 22,674 |
| Corporate | (121,205) | 29,458 | 20% | (150,663) | (465) | — % | (150,198) |
| Total | $ 426,203 | $ 102,635 | 32% | $ 323,568 | $ 125,806 | 64 % | $ 197,762 |
| | | | | | | | |
| As a percentage of revenue | 14% | | | 12% | | | 10% |

NM = not meaningful

Refer to Note 15 to the consolidated financial statements for reconciliations of Adjusted EBITDA to operating income (loss) by reportable segment.

*For the year ended December 31, 2013 compared to the year ended December 31, 2012*

Operating income in 2013 increased from 2012 primarily due to the increase of $100.9 million in Adjusted EBITDA described above and a decrease of $32.6 million in non-cash compensation expense, partially offset by increases of $24.1 million in amortization of intangibles and $6.4 million in depreciation. The decrease in non-cash compensation expense is primarily a result of the vesting of certain awards and an increase in the number of awards forfeited as compared to 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 in the second quarter of 2013.

At December 31, 2013, there was $86.2 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 2.2 years.

*For the year ended December 31, 2012 compared to the year ended December 31, 2011*

Operating income in 2012 increased from 2011 primarily due to the increase of $132.3 million in Adjusted EBITDA described above and decreases of $4.2 million in depreciation and $3.0 million in non-cash compensation expense, partially offset by an increase of $13.7 million in amortization of intangibles. The increase in amortization of intangibles is primarily related to The About Group and News_Beast.

***Equity in losses of unconsolidated affiliates***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2013** | **$ Change** | **% Change** | **2012** | **$ Change** | **% Change** | **2011** |
| | (Dollars in thousands) | | | | | | |
| Equity in losses of unconsolidated affiliates | $(6,615) | $18,730 | 74% | $(25,345) | $10,955 | 30% | $(36,300) |

Equity in losses of unconsolidated affiliates in 2012 includes a pre-tax non-cash charge of $18.6 million related to the re-measurement of the carrying value of our equity method investment in News_Beast to fair value in connection with our acquisition of a controlling interest and losses related to News_Beast through May 31, 2012.

Equity in losses of unconsolidated affiliates in 2011 includes losses related to our equity method investment in News_Beast and a pre-tax non-cash charge of $11.7 million related to the re-measurement of the carrying value of Match's 27% equity method investment in Meetic to fair value (i.e., the tender offer price of €15.00 per share) in connection with our acquisition of a controlling interest. Partially offsetting these items are earnings related to Meetic through August 31, 2011.

***Interest expense***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2013** | **$ Change** | **% Change** | **2012** | **$ Change** | **% Change** | **2011** |
| | (Dollars in thousands) | | | | | | |
| Interest expense | $(33,596) | $(27,447) | (446)% | $(6,149) | $(719) | (13)% | $(5,430) |

Interest expense in 2013 increased from 2012 primarily due to the 4.75% Senior Notes due December 15, 2022 (the "2012 Senior Notes") on December 21, 2012 and the issuance of 4.875% Senior Notes due November 30, 2018 (the "2013 Senior Notes") on November 15, 2013.

Interest expense in 2012 increased from 2011 primarily due to the issuance of the 2012 Senior Notes.

***Other income (expense), net***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2013** | **$ Change** | **% Change** | **2012** | **$ Change** | **% Change** | **2011** |
| | (Dollars in thousands) | | | | | | |
| Other income (expense), net | $30,309 | $33,321 | NM | $(3,012) | $(18,502) | NM | $15,490 |

Other income, net in 2013 is primarily due to a $35.9 million pre-tax gain related to the sale of long-term investments, consisting principally of certain marketable equity securities, partially offset by a $5.0 million write-down of a cost method investment to fair value.

Other expense, net in 2012 is primarily due to an $8.7 million other-than-temporary impairment charge related to a long-term marketable equity security. The Company evaluated the near-term prospects of the issuer in relation to the severity and duration of its unrealized loss and based on that evaluation recorded an impairment charge in the fourth quarter of 2012. Partially offsetting the impairment charge is $3.5 million in interest income and a $3.3 million pre-tax gain related to the sale of certain marketable equity securities.

Other income, net in 2011 is primarily due to $5.2 million in interest income, $4.6 million in gains associated with certain non-income tax refunds related to Match Europe, which was sold in 2009, a foreign currency exchange gain of $3.3 million related to the funds that were held in escrow for the Meetic tender offer and a $2.0 million pre-tax gain related to the sale of a marketable equity security.

***Income tax (provision) benefit***

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2013** | **$ Change** | **% Change** | **2012** | **$ Change** | **% Change** | **2011** |
| | | | | **(Dollars in thousands)** | | | |
| Income tax (provision) benefit | $(134,502) | NM | NM | $(119,215) | NM | NM | $4,047 |

In 2013, the Company recorded an income tax provision for continuing operations of $134.5 million, which represents an effective income tax rate of 32%. The 2013 effective rate is lower than the statutory rate of 35% due primarily to foreign income taxed at lower rates. In 2012, the Company recorded an income tax provision for continuing operations of $119.2 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 other-than-temporary impairment charge related to a long-term marketable equity security and state taxes, partially offset by foreign income taxed at lower rates. In 2011, the Company recorded an income tax benefit for continuing operations of $4.0 million despite pre-tax income of a $171.5 million. The income tax benefit is due principally to the reversal of a previously established deferred tax liability described in the next sentence, reserve release due to the settlement of audits, expirations of statutes of limitations and foreign income taxed at lower rates. In connection with the acquisition of a controlling interest in Meetic in 2011, the Company concluded that it intends to indefinitely reinvest the earnings of The Match Group’s international operations related to Meetic, including the 2009 gain on sale of Match Europe, outside of the United States, which resulted in the reversal of a deferred tax liability of $43.7 million.

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 year ended December 31, 2013 is a $4.8 million expense and a $1.4 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 year ended December 31, 2012 is a $5.2 million expense and a $2.8 million benefit, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. At December 31, 2013 and 2012, the Company has accrued $133.0 million and $117.5 million, respectively, for the payment of interest. At December 31, 2013 and 2012, the Company has accrued $5.1 million and $5.0 million, respectively, 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. Various jurisdictions are currently under examination, the most significant of which are France, 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 the resolution of 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.

On August 28, 2013, the Joint Committee of Taxation completed its review and approved the audit settlement previously agreed to with the Internal Revenue Service ("IRS") for the years ended December 31, 2001 through 2009. The statute of limitations for the years 2001 through 2009 expires on July 1, 2014. The resolution of this IRS examination resulted in a net liability to the IRS of $7.1 million. At December 31, 2013 and 2012, the Company has unrecognized tax benefits of $275.8 million and $379.3 million, respectively. Unrecognized tax benefits at December 31, 2013 decreased $103.5 million from December 31, 2012 due principally to the settlement of the audit of the federal income tax returns for the years ended December 31, 2001 through 2009. The reduction of unrecognized tax benefits was substantially offset by a reduction of receivables related to the same period. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease within twelve months of the current reporting date. An estimate of changes in unrecognized tax benefits, while potentially significant, cannot be made.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2013, the Company had $1.1 billion of cash and cash equivalents, $6.0 million of marketable securities, and $1.1 billion 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 equity securities and a short-to-medium-term debt security issued by an investment grade corporate issuer. The Company invests in marketable debt securities with active secondary or resale markets to ensure portfolio liquidity to fund current operations or satisfy other cash requirements as needed. The Company also invests in equity securities as part of its investment strategy. Long-term debt is comprised of $500.0 million in 2013 Senior Notes due November 30, 2018, $500.0 million in 2012 Senior Notes due December 15, 2022 and $80.0 million in Liberty Bonds due September 1, 2035. The proceeds received from the issuance of our 2013 and 2012 Senior Notes will be used for general corporate purposes.

At December 31, 2013, $313.4 million of the $1.1 billion 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 currently does not anticipate a need to repatriate these funds to finance our U.S. operations and it is the Company's intent to indefinitely reinvest these funds outside of the U.S.

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

| | December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Net cash provided by operating activities | $ 410,961 | $ 354,527 | $ 372,386 |
| Net cash used in investing activities | (80,017) | (352,088) | (25,186) |
| Net cash provided by (used in) financing activities | 17,922 | 44,301 | (372,233) |

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, asset impairment charges, excess tax benefits from stock-based awards, deferred income taxes, equity in earnings or losses of unconsolidated affiliates, acquisition-related contingent consideration fair value adjustments, as well as gain on sales of long-term investments and gain on sales of assets, and the effect of changes in working capital activities. Net cash provided by operating activities attributable to continuing operations in 2013 consists of earnings from continuing operations of $281.8 million, adjustments for non-cash items and gains on sales of long-term investments and assets totaling $110.8 million, and cash provided by working capital activities of $18.4 million. Adjustments for non-cash items and sales of long-term investments and assets primarily consist of $59.8 million of amortization of intangibles, $58.9 million of depreciation, $53.0 million of non-cash compensation expense, partially offset by $32.9 million of excess tax benefits from stock-based awards, $35.9 million of gain on sales of long-term investments and $14.8 million of gain on sales of assets. The increase in cash from changes in working capital activities primarily consists of an increase in income taxes payable of $49.2 million and a decrease in accounts receivable of $10.4 million, partially offset by an increase of $34.6 million in other assets. The increase in income taxes payable is due to current year income tax accruals in excess of current year income tax payments. The decrease in accounts receivable is primarily due to a $14.8 million decrease in accounts receivable related to Newsweek's transition to a digital only publication and our services agreement with Google; the related receivable from Google was $112.3 million and $125.3 million at December 31, 2013 and 2012, respectively. These decreases were partially offset by an increase in accounts receivable at Electus due to higher revenue. The increase in other 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.

Net cash used in investing activities attributable to continuing operations in 2013 includes cash consideration used in acquisitions and investments of $91.8 million, which includes the acquisition of Twoo, and capital expenditures of $80.3 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 $82.5 million.

Net cash provided by financing activities attributable to continuing operations in 2013 includes $500.0 million in proceeds from the issuance of our 2013 Senior Notes and excess tax benefits from stock-based awards of $32.9 million, partially offset by $264.2 million for the repurchase of 4.5 million shares of common stock at an average price of $50.63 per share, $79.2 million related to the payment of cash dividends to IAC shareholders, $71.5 million held in escrow related to the Meetic tender offer, $67.9 million for the purchase of noncontrolling interests in Meetic and a subsidiary of HomeAdvisor,

$15.8 million for the payment of our 2002 Senior Notes, which were due January 15, 2013, and $7.4 million of debt issuance costs associated with our 2013 Senior Notes.

Net cash provided by operating activities attributable to continuing operations in 2012 consists of earnings from continuing operations of $169.8 million, adjustments for non-cash items of $204.2 million and cash used in working capital activities of $19.5 million. Adjustments for non-cash items primarily consists of $85.6 million of non-cash compensation expense, $52.5 million of depreciation, $37.1 million of deferred income taxes, $35.8 million of amortization of intangibles and $25.3 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 in connection with our acquisition of a controlling interest, partially offset by $57.1 million of excess tax benefits from stock-based awards. The deferred income tax provision primarily relates to the vesting of restricted stock units, the exercise of stock options and the accelerated payment of 2012 bonuses. The decrease in cash from changes in working capital activities primarily consists of an increase of $31.0 million in accounts receivable, an increase of $23.0 million in other assets, a decrease in accounts payable and other current liabilities of $14.4 million, partially offset by an increase in income taxes payable of $47.0 million. 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 $125.3 million and $105.7 million at December 31, 2012 and 2011, respectively. While The Match Group 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 assets is primarily related to a receivable for insurance claims related to Hurricane Sandy, an increase in capitalized downloadable search toolbar costs and an 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. The decrease in accounts payable and other current liabilities is primarily due to a decrease in accrued employee compensation and benefits, partially offset by an increase in accrued advertising expense. The decrease in accrued employee compensation and benefits is due to the payment of the 2012 and 2011 bonuses in 2012. The increase in accrued advertising expense is primarily due to an increase in advertising and promotional expenditures at Search & Applications. The increase in income taxes payable is due to current year income tax accruals in excess of current year income tax payments.

Net cash used in investing activities attributable to continuing operations in 2012 includes cash consideration used in acquisitions and investments of $447.1 million primarily related to the acquisition of The About Group, and capital expenditures of $51.2 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 $155.7 million.

Net cash provided by financing activities attributable to continuing operations in 2012 includes $500.0 million in proceeds from the issuance of our 2012 Senior Notes, proceeds related to the issuance of common stock, net of withholding taxes, of $262.8 million, and excess tax benefits from stock-based awards of $57.1 million, partially offset by $691.8 million for the repurchase of 15.5 million shares of common stock at an average price of $46.09 per share, $68.2 million related to the payment of cash dividends to IAC shareholders and $11.0 million of debt issuance costs associated with our 2012 Senior Notes. Included in the proceeds related to the issuance of common stock 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.

Net cash provided by operating activities attributable to continuing operations in 2011 consists of earnings from continuing operations of $175.6 million, adjustments for non-cash items of $154.7 million and cash provided by working capital activities of $42.1 million. Adjustments for non-cash items primarily consists of $88.6 million of non-cash compensation expense, $56.7 million of depreciation, $36.3 million of equity in losses of unconsolidated affiliates, which includes a non-cash charge of $11.7 million to re-measure the carrying value of our investment in Meetic to fair value in connection with our acquisition of a controlling interest and $22.1 million of amortization of intangibles, partially offset by $35.5 million of deferred income taxes and $22.2 million of excess tax benefits from stock-based awards. The deferred income tax benefit primarily relates to the reversal of a previously established deferred tax liability in connection with the acquisition of a controlling interest in Meetic. The increase in cash from changes in working capital activities primarily consists of an increase of $57.2 million in accounts payable and other current liabilities and an increase of $48.9 million in deferred revenue, partially offset by an increase in accounts receivable of $58.3 million. The increase in accounts payable and other current liabilities is primarily due to an increase in accrued advertising expense, an increase in accrued employee compensation and benefits and an increase in accrued revenue share expense. The increase in accrued advertising expense is primarily due to an increase in advertising and promotional expenditures at Search & Applications. The increase in accrued employee compensation and benefits is primarily due to the increase in the 2011 bonus accrual which was paid entirely in the first quarter of 2012 as compared to the 2010 bonus accrual which was partially paid in December of 2010 and the remainder in the first quarter of 2011. The increase in accrued revenue share expense is primarily due to an increase in traffic acquisition costs at Search & Applications. The increase in deferred revenue is primarily due to the growth in subscription revenue at The Match Group, which includes an increase of $29.5 million in deferred revenue at Meetic, as well as growth at Electus, Vimeo and Notional. The increase in accounts receivable is primarily due to the growth in revenue earned from our services agreement with Google; the related receivable from Google was $105.7 million and $70.5 million at December 31, 2011 and 2010, respectively. While The Match Group, Media and HomeAdvisor businesses experienced strong 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.

Net cash used in investing activities attributable to continuing operations in 2011 includes cash consideration used in acquisitions and investments of $368.7 million primarily related to the acquisitions of Meetic and OkCupid and the investment in Zhenai Inc. and capital expenditures of $40.0 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 $396.2 million.

Net cash used in financing activities attributable to continuing operations in 2011 includes $507.8 million for the repurchase of 13.6 million shares of common stock at an average price of $38.20 per share and $10.7 million related to the payment of cash dividends to IAC shareholders, partially offset by proceeds related to the issuance of common stock, net of withholding taxes, of $132.8 million, and excess tax benefits from stock-based awards of $22.2 million. Included in the proceeds related to the issuance of common stock are proceeds of $76.0 million from the exercise of warrants to acquire 3.2 million shares of IAC common stock. The weighted average strike price of the warrants was $26.90 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 December 31, 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. The Company expects that 2014 capital expenditures will be lower than 2013. At December 31, 2013, IAC had 8.6 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 February 4, 2014, IAC declared a quarterly cash dividend of $0.24 per share of common and Class B common stock outstanding payable on March 1, 2014 to stockholders of record on February 15, 2014. Future declarations of dividends are subject to the determination of IAC's Board of Directors.

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 foreseeable future. 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 COMMERCIAL COMMITMENTS

| Contractual Obligations[a] | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Less Than 1 Year | 1–3 Years | 3–5 Years | More Than 5 Years | Total |
| | (In thousands) | | | | |
| Long-term debt[b] | $ 53,141 | $ 104,250 | $ 604,250 | $ 743,000 | $ 1,504,641 |
| Operating leases | 26,295 | 51,637 | 42,403 | 197,846 | 318,181 |
| Purchase obligations[c] | 8,534 | 3,009 | — | — | 11,543 |
| Total contractual cash obligations | $ 87,970 | $ 158,896 | $ 646,653 | $ 940,846 | $ 1,834,365 |

(a) The Company has excluded $294.7 million in unrecognized tax benefits and related interest from the table above as we are unable to make a reasonably reliable estimate of the period in which these liabilities might be paid. For additional information on income taxes, see Note 4 to the consolidated financial statements.

(b) Represents contractual amounts due including interest.

(c) The purchase obligations primarily include advertising commitments, which commitments are reducible or terminable such that these commitments can never exceed associated revenue by a meaningful amount. Purchase obligations also include minimum payments due under telecommunication contracts related to data transmission lines.

| Other Commercial Commitments[d] | Amount of Commitment Expiration Per Period | | |
|---|---|---|---|
| | Less Than 1 Year | 1–3 Years | Total |
| | (In thousands) | | |
| Letters of credit and surety bonds | $ 2,937 | $ 69 | $ 3,006 |

(d) Commercial commitments are funding commitments that could potentially require registrant performance in the event of demands by third parties or contingent events.

### *Off-Balance Sheet Arrangements*

Other than the items described above, the Company does not have any off-balance sheet arrangements as of December 31, 2013.

## IAC'S PRINCIPLES OF FINANCIAL REPORTING

IAC reports Adjusted EBITDA as a supplemental measure to U.S. 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 U.S. GAAP, but should not be considered a substitute for or superior to U.S. GAAP results. IAC endeavors to compensate for the limitations of the non-GAAP measure presented by providing the comparable U.S. GAAP measure with equal or greater prominence 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 U.S. GAAP and non-GAAP measure, which we discuss below.

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

Adjusted EBITDA is defined as operating income excluding: (1) non-cash compensation expense; (2) depreciation; and (3) acquisition-related items consisting of (i) amortization of intangible assets and goodwill and intangible asset impairments and (ii) gains and losses recognized on changes in the fair value of contingent consideration arrangements. We believe this measure is useful for analysts and investors as this measure allows a more meaningful comparison between our performance and that of our competitors. Moreover, our management uses this measure internally to evaluate the performance of our business as a whole and our individual business segments. The above items are excluded from our Adjusted EBITDA measure because these items are non-cash in nature, and we believe that by excluding these items, Adjusted EBITDA corresponds more closely to the cash operating income generated from our business, from which capital investments are made and debt is serviced. Adjusted EBITDA has certain limitations in that it does not take into account the impact to IAC's statement of operations of certain expenses.

### 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 and goodwill impairment and intangible asset impairments* 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.

*Gains and losses recognized on changes in the fair value of contingent consideration arrangements* are accounting adjustments to report 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 ADJUSTED EBITDA**

For a reconciliation of Adjusted EBITDA to operating income (loss) by reportable segment for the years ended December 31, 2013, 2012 and 2011, see Note 15 to the consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following disclosure is provided to supplement the descriptions of IAC's accounting policies contained in Note 2 to the consolidated financial statements in regard to significant areas of judgment. Management of the Company is required to make certain estimates, judgments and assumptions during the preparation of its consolidated financial statements in accordance with U.S. generally accepted accounting principles. These estimates, judgments and assumptions impact the reported amount of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Actual results could differ from those estimates. Because of the size of the financial statement elements to which they relate, some of our accounting policies and estimates have a more significant impact on our consolidated financial statements than others. What follows is a discussion of some of our more significant accounting policies and estimates.

### Recoverability of Goodwill and Indefinite-Lived Intangible Assets

Goodwill and indefinite-lived intangible assets, which consist of the Company's acquired trade names and trademarks, are assessed annually for impairment as of October 1 or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit or the fair value of an indefinite-lived intangible asset below its carrying value. The annual assessments identified no impairment charges in 2013, 2012 or 2011. The value of goodwill and indefinite-lived intangible assets that is subject to annual assessment for impairment is $1.7 billion and $376.3 million, respectively, at December 31, 2013.

In 2012, the Company adopted Accounting Standards Update ("ASU") 2011-08, "Testing Goodwill for Impairment," which gives companies the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If the Company elects to perform a qualitative assessment and concludes it is not more likely than not that the fair value of the reporting unit is less than its carrying value, no further assessment of that reporting unit's goodwill is necessary; otherwise goodwill must be tested for impairment using a two-step process. The first step involves a comparison of the estimated fair value of each of the Company's reporting units to its carrying value, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit using a discounted cash flow ("DCF") analysis. Determining fair value requires the exercise of significant judgment, including judgment about the amount and timing of expected future cash flows and appropriate discount rates. The expected cash flows used in the DCF analyses are based on the Company's most recent budget and, for years beyond the budget, the Company's estimates, which are based, in part, on forecasted growth rates. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the expected future cash flows of the respective reporting units. Assumptions used in the DCF analyses, including the discount rate, are assessed annually based on the reporting units' current results and forecast, as well as macroeconomic and industry specific factors. The discount rates used in the Company's annual goodwill impairment assessment ranged from 13% to 25% in both 2013 and 2012. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying value of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its carrying value to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess.

At October 1, 2013, the date of our most recent annual impairment assessment, the fair value of the Company's reporting units significantly exceed their carrying values. Any impairment charge that might result in the future would be determined based upon the excess of the carrying value of goodwill over its implied fair value using the second step of the impairment analysis that is described above but, in any event, would not be expected to be lower than the excess of the carrying value of the reporting unit over its fair value. The primary driver in the DCF valuation analyses and the determination of the fair values of the Company's reporting units is the estimate of future revenue and profitability. Generally, the Company would expect to record an impairment if forecasted revenue and profitability are no longer expected to be achieved and as a result, the carrying value of a reporting unit(s) exceeds its fair value. This assessment would be based, in part, upon the performance of its businesses relative to budget, the Company's assessment of macroeconomic factors, industry and competitive dynamics and the strategies of its businesses in response to these factors.

In 2012, the Company adopted ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment," which gives companies the option to qualitatively assess whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If the Company elects to perform a qualitative assessment and concludes it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value, the fair value of the asset does not need to be determined; otherwise the fair value of the indefinite-lived intangible asset must be determined and compared to its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of indefinite-lived intangible assets are determined using an avoided royalty DCF valuation analysis. Significant judgments inherent in this analysis include the selection of appropriate royalty and discount rates and estimating the amount and timing of expected future cash flows. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the expected future cash flows generated by the respective intangible assets. The royalty rates used in the DCF analyses are based upon an estimate of the royalty rates that a market participant would pay to license the Company's trade names and trademarks. Assumptions used in the avoided royalty DCF analyses, including the discount rate and royalty rate, are assessed annually based on the actual and projected cash flows related to the asset, as well as macroeconomic and industry specific factors. The discount rates used in the Company's annual indefinite-lived impairment assessment ranged from 10% to 18% in both 2013 and 2012, and the royalty rates used ranged from 1% to 9% in both 2013 and 2012.

**Recoverability of Long-Lived Assets**

We review the carrying value of all long-lived assets, comprising property and equipment and definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is deemed not to be recoverable, an impairment loss is recorded equal to the amount by which the carrying value of the long-lived asset exceeds its fair value. During 2013 and 2011 the Company wrote off certain capitalized software costs. These charges are more fully described above in "Results of Operations for the Years Ended December 31, 2013, 2012 and 2011 - Depreciation." The carrying value of property and equipment and definite-lived intangible assets is $363.0 million at December 31, 2013.

**Income Taxes**

Estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 4 to the consolidated financial statements, and reflect management's assessment of actual future taxes to be paid on items reflected in the consolidated financial statements, giving consideration to both timing and the probability of realization. As of December 31, 2013, the balance of deferred tax liabilities, net, is $286.6 million. Actual income taxes could vary from these estimates due to future changes in income tax law, state income tax apportionment or the outcome of any review of our tax returns by the various tax authorities, as well as actual operating results of the Company that vary significantly from anticipated results.

We recognize liabilities for uncertain tax positions based on the two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is then measured for purposes of financial statement recognition as the largest amount of benefit which is more than 50% likely of being realized upon ultimate settlement. This measurement step is inherently difficult and requires subjective estimations of such amounts to determine the probability of various possible outcomes. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. At December 31, 2013, the Company has unrecognized tax benefits of $408.8 million, including interest. 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.

**Stock-Based Compensation**

As disclosed in the notes to the consolidated financial statements, the Company estimated the fair value of stock options issued in 2013, 2012 and 2011 using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 1.0%, 0.6% and 2.3%, respectively, a dividend yield of 2.0%, 1.2% and zero, respectively, volatility factors of 29%, 31% and 30%, respectively, based on the historical stock price volatilities of IAC and a weighted average expected term of the stock options of 6.2 years, 4.4 years and 6.1 years, respectively. For stock options, including unvested stock options assumed in acquisitions, the value of the stock option is measured at the grant date (or acquisition date, if applicable) at fair value and expensed over the remaining vesting term. The impact on non-cash compensation expense for the year ended December 31, 2013, assuming a 1% increase in the risk-free interest rate, a 10% increase in the volatility factor, and a one year increase in the weighted average expected term of the outstanding options would be an increase of $2.0 million, $9.2 million, and $3.9 million, respectively. The Company also issues RSUs and performance-based RSUs. For RSUs issued, the value of the instrument is measured at the grant date as the fair value of IAC common stock and expensed as non-cash compensation expense over the vesting term. For performance-based RSUs issued, the value of the instrument is measured at the grant date as the fair value of IAC common stock and expensed as non-cash compensation over the vesting term when the performance targets are considered probable of being achieved.

**Marketable Securities and Long-term Investments**

Marketable securities consist of equity securities and a short-to-medium-term debt security issued by an investment grade corporate issuer. Long-term investments include equity securities accounted for under the equity and cost methods and marketable equity securities. The Company invests in marketable debt securities with active secondary or resale markets to ensure portfolio liquidity to fund current operations or satisfy other cash requirements as needed. The Company also invests in marketable equity securities as part of its investment strategy.

Marketable securities are adjusted to fair value each quarter, and the unrealized gains and losses, net of tax, are included in accumulated other comprehensive income as a separate component of shareholders' equity. 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. The Company recognizes unrealized losses on marketable securities in net earnings when the losses are determined to be other-than-temporary. Additionally, the Company evaluates each cost and equity method investment for indicators of impairment on a quarterly basis, and recognizes an impairment loss if the decline in value is deemed to be other-than-temporary. Future events may result in reconsideration of the nature of losses as other-than-temporary and market and other factors may cause the value of the Company's investments to decline.

The Company employs a methodology that considers available evidence in evaluating potential other-than-temporary impairments of its investments. Investments are considered to be impaired when a decline in fair value below the amortized cost basis is determined to be other-than-temporary. Such impairment evaluations include, but are not limited to: the length of time and extent to which fair value has been less than the cost basis, the current business environment, including competition; going concern considerations such as financial condition, the rate at which the investee company utilizes cash and the investee company's ability to obtain additional financing to achieve business plan; the need for changes to the investee company's existing business model due to changing business environments and its ability to successfully implement necessary changes; and comparable valuations. During 2013, the Company recognized an impairment charge of $5.0 million related to a cost method investment and during 2012, the Company recorded an impairment charge of $8.7 million related to one of its long-term marketable equity securities. These charges are more fully described above in "Results of Operations for the Years Ended December 31, 2013, 2012 and 2011 - Other income (expense), net."

## Item 8. Consolidated Financial Statements and Supplementary Data

### Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of IAC/InterActiveCorp

We have audited the accompanying consolidated balance sheet of IAC/InterActiveCorp and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed on page 69. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of IAC/InterActiveCorp and subsidiaries as of December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), IAC/InterActiveCorp's internal control over financial reporting as of December 31, 2013, based on criteria established in the Internal Control-Integrated issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 26, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, New York
February 26, 2014,
except for Notes 1, 2, 6, 15 and 22,
as to which the date is July 2, 2014

**IAC/INTERACTIVECORP AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET**

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands, except share data) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 1,100,444 | $ 749,977 |
| Marketable securities | 6,004 | 20,604 |
| Accounts receivable, net of allowance of $8,540 and $11,088, respectively | 207,408 | 229,830 |
| Other current assets | 161,530 | 156,339 |
| Total current assets | 1,475,386 | 1,156,750 |
| Property and equipment, net | 293,964 | 270,512 |
| Goodwill | 1,675,323 | 1,616,154 |
| Intangible assets, net | 445,336 | 482,904 |
| Long-term investments | 179,990 | 161,278 |
| Other non-current assets | 164,685 | 118,230 |
| **TOTAL ASSETS** | $ 4,234,684 | $ 3,805,828 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **LIABILITIES:** | | |
| Current maturities of long-term debt | $ — | $ 15,844 |
| Accounts payable, trade | 77,653 | 98,314 |
| Deferred revenue | 158,206 | 155,499 |
| Accrued expenses and other current liabilities | 351,038 | 355,232 |
| Total current liabilities | 586,897 | 624,889 |
| Long-term debt, net of current maturities | 1,080,000 | 580,000 |
| Income taxes payable | 416,384 | 479,945 |
| Deferred income taxes | 320,748 | 323,403 |
| Other long-term liabilities | 58,393 | 31,830 |
| | | |
| Redeemable noncontrolling interests | 42,861 | 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 76,404,552 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 | 11,562,567 | 11,607,367 |
| Accumulated deficit | (32,735) | (318,519) |
| Accumulated other comprehensive loss | (13,046) | (32,169) |
| Treasury stock 184,945,527 and 182,878,295 shares, respectively | (9,830,317) | (9,601,218) |
| Total IAC shareholders' equity | 1,686,736 | 1,655,728 |
| Noncontrolling interests | 42,665 | 51,907 |
| Total shareholders' equity | 1,729,401 | 1,707,635 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 4,234,684 | $ 3,805,828 |

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

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF OPERATIONS

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands, except per share data) | | |
| Revenue | $ 3,022,987 | $ 2,800,933 | $ 2,059,444 |
| Costs and expenses: | | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 1,000,101 | 990,797 | 753,889 |
| Selling and marketing expense | 964,131 | 894,545 | 617,198 |
| General and administrative expense | 372,470 | 386,088 | 321,062 |
| Product development expense | 141,330 | 117,683 | 90,757 |
| Depreciation | 58,909 | 52,481 | 56,719 |
| Amortization of intangibles | 59,843 | 35,771 | 22,057 |
| Total costs and expenses | 2,596,784 | 2,477,365 | 1,861,682 |
| Operating income | 426,203 | 323,568 | 197,762 |
| Equity in losses of unconsolidated affiliates | (6,615) | (25,345) | (36,300) |
| Interest expense | (33,596) | (6,149) | (5,430) |
| Other income (expense), net | 30,309 | (3,012) | 15,490 |
| Earnings from continuing operations before income taxes | 416,301 | 289,062 | 171,522 |
| Income tax (provision) benefit | (134,502) | (119,215) | 4,047 |
| **Earnings from continuing operations** | 281,799 | 169,847 | 175,569 |
| Earnings (loss) from discontinued operations, net of tax | 1,926 | (9,051) | (3,992) |
| **Net earnings** | 283,725 | 160,796 | 171,577 |
| Net loss (earnings) attributable to noncontrolling interests | 2,059 | (1,530) | 2,656 |
| **Net earnings attributable to IAC shareholders** | $ 285,784 | $ 159,266 | $ 174,233 |
| | | | |
| **Per share information attributable to IAC shareholders:** | | | |
| Basic earnings per share from continuing operations | $ 3.40 | $ 1.95 | $ 2.05 |
| Diluted earnings per share from continuing operations | $ 3.27 | $ 1.81 | $ 1.89 |
| Basic earnings per share | $ 3.42 | $ 1.85 | $ 2.01 |
| Diluted earnings per share | $ 3.29 | $ 1.71 | $ 1.85 |
| | | | |
| **Dividends declared per share** | $ 0.96 | $ 0.72 | $ 0.12 |
| | | | |
| **Non-cash compensation expense by function:** | | | |
| Cost of revenue | $ 2,863 | $ 6,219 | $ 5,359 |
| Selling and marketing expense | 2,813 | 4,760 | 4,807 |
| General and administrative expense | 42,487 | 68,640 | 70,894 |
| Product development expense | 4,842 | 6,006 | 7,528 |
| Total non-cash compensation expense | $ 53,005 | $ 85,625 | $ 88,588 |

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

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Net earnings | $ 283,725 | $ 160,796 | $ 171,577 |
| Other comprehensive income (loss), net of tax: | | | |
| Change in foreign currency translation adjustment | 7,353 | 712 | (49,438) |
| Change in net unrealized gains (losses) on available-for-sale securities (net of tax benefits of $3,050 in 2013 and $3,981 in 2012 and tax provision of $5,460 in 2011) | 15,442 | (19,827) | 11,212 |
| Total other comprehensive income (loss) | 22,795 | (19,115) | (38,226) |
| Comprehensive income | 306,520 | 141,681 | 133,351 |
| Comprehensive (income) loss attributable to noncontrolling interests | (1,613) | (2,141) | 10,893 |
| Comprehensive income attributable to IAC shareholders | $ 304,907 | $ 139,540 | $ 144,244 |

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

# IAC/INTERACTIVECORP AND SUBSIDIARIES

# CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

| | | IAC Shareholders' Equity | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Common Stock $.001 Par Value | | Class B Convertible Common Stock $.001 Par Value | | | | | | | | |
| | Redeemable Noncontrolling Interests | $ | Shares | $ | Shares | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total IAC Shareholders' Equity | Noncontrolling Interests | Total Shareholders' Equity |
| | (In thousands) | | | | | | | | | | | |
| **Balance as of December 31, 2010** | $ 59,869 | $ 226 | 225,874 | $ 16 | 16,157 | $ 11,047,884 | $ (652,018) | $ 17,546 | $ (8,363,586) | $ 2,050,068 | $ — | $ 2,050,068 |
| Net (loss) earnings for the year ended December 31, 2011 | (239) | — | — | — | — | — | 174,233 | — | — | 174,233 | (2,417) | 171,816 |
| Other comprehensive loss, net of tax | (2,968) | — | — | — | — | — | — | (29,989) | — | (29,989) | (5,269) | (35,258) |
| Noncontrolling interests related to acquisition of Meetic S.A. | 36,656 | — | — | — | — | — | — | — | — | — | 64,831 | 64,831 |
| Decrease in redeemable noncontrolling interests in a consolidated Latin American venture resulting from the acquisition of Meetic | (37,917) | — | — | — | — | — | — | — | — | — | — | — |
| Non-cash compensation expense | — | — | — | — | — | 86,725 | — | — | — | 86,725 | 1,049 | 87,774 |
| Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes | — | 5 | 5,010 | — | — | 56,731 | — | — | — | 56,736 | — | 56,736 |
| Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other | — | — | — | — | — | 28,363 | — | — | — | 28,363 | — | 28,363 |
| Issuance of common stock upon the exercise of warrants | — | 3 | 3,217 | — | — | 76,039 | — | — | — | 76,042 | — | 76,042 |
| Dividends | — | — | — | — | — | (11,296) | — | — | — | (11,296) | (3,103) | (14,399) |
| Purchase of treasury stock | — | — | — | — | — | — | — | — | (518,637) | (518,637) | — | (518,637) |
| Purchase of noncontrolling interests | (5,779) | — | — | — | — | — | — | — | — | — | — | — |
| Adjustment of redeemable noncontrolling interests to fair value | 4,273 | — | — | — | — | (4,273) | — | — | — | (4,273) | — | (4,273) |
| Other | (3,546) | — | — | — | — | — | — | — | (2,923) | (2,923) | — | (2,923) |
| **Balance as of December 31, 2011** | $ 50,349 | $ 234 | 234,101 | $ 16 | 16,157 | $ 11,280,173 | $ (477,785) | $ (12,443) | $ (8,885,146) | $ 1,905,049 | $ 55,091 | $ 1,960,140 |
| Net (loss) earnings for the year ended December 31, 2012 | (1,118) | — | — | — | — | — | 159,266 | — | — | 159,266 | 2,648 | 161,914 |
| Other comprehensive income (loss), net of tax | 207 | — | — | — | — | — | — | (19,726) | — | (19,726) | 404 | (19,322) |
| Non-cash compensation expense | — | — | — | — | — | 82,807 | — | — | — | 82,807 | 2,818 | 85,625 |
| Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes | — | 5 | 5,153 | — | — | (16,503) | — | — | — | (16,498) | — | (16,498) |
| Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other | — | — | — | — | — | 49,967 | — | — | — | 49,967 | — | 49,967 |
| Issuance of common stock upon the exercise of warrants | — | 12 | 11,728 | — | — | 284,099 | — | — | — | 284,111 | — | 284,111 |
| Dividends | — | — | — | — | — | (68,901) | — | — | — | (68,901) | — | (68,901) |
| Purchase of treasury stock | — | — | — | — | — | — | — | — | (716,072) | (716,072) | — | (716,072) |
| Purchase of redeemable noncontrolling interests | (2,955) | — | — | — | — | — | — | — | — | — | — | — |
| Adjustment of redeemable noncontrolling interests to fair value | 4,275 | — | — | — | — | (4,275) | — | — | — | (4,275) | — | (4,275) |
| Transfer from noncontrolling interests to redeemable noncontrolling interests | 10,049 | — | — | — | — | — | — | — | — | — | (10,049) | (10,049) |
| Other | (2,681) | — | — | — | — | — | — | — | — | — | 995 | 995 |
| **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 | $ 51,907 | $ 1,707,635 |

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Continued)

| | Redeemable Noncontrolling Interests | IAC Shareholders' Equity | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Common Stock $.001 Par Value | | Class B Convertible Common Stock $.001 Par Value | | | | | | | | |
| | | $ | Shares | $ | Shares | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total IAC Shareholders' Equity | Noncontrolling Interests | Total Shareholders' Equity |
| | (In thousands) | | | | | | | | | | | |
| Net (loss) earnings for the year ended December 31, 2013 | (3,264) | — | — | — | — | — | 285,784 | — | — | 285,784 | 1,205 | 286,989 |
| Other comprehensive income, net of tax | 2,305 | — | — | — | — | — | — | 19,123 | — | 19,123 | 1,367 | 20,490 |
| Non-cash compensation expense | — | — | — | — | — | 51,883 | — | — | — | 51,883 | 1,122 | 53,005 |
| Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes | — | — | — | — | — | (9,899) | — | — | 2 | (9,897) | — | (9,897) |
| Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other | — | — | — | — | — | 30,986 | — | — | — | 30,986 | — | 30,986 |
| Dividends | — | — | — | — | — | (77,830) | — | — | — | (77,830) | — | (77,830) |
| Purchase of treasury stock | — | — | — | — | — | — | — | — | (229,101) | (229,101) | — | (229,101) |
| Purchase of redeemable noncontrolling interests | (55,576) | — | — | — | — | — | — | — | — | — | — | — |
| Purchase of noncontrolling interests | — | — | — | — | — | — | — | — | — | — | (12,371) | (12,371) |
| Adjustment of redeemable noncontrolling interests and noncontrolling interests to fair value | 40,638 | — | — | — | — | (42,947) | — | — | — | (42,947) | 2,309 | (40,638) |
| Transfer from noncontrolling interests to redeemable noncontrolling interests | 2,874 | — | — | — | — | — | — | — | — | — | (2,874) | (2,874) |
| Other | (2,242) | — | — | — | — | 3,007 | — | — | — | 3,007 | — | 3,007 |
| **Balance as of December 31, 2013** | $ 42,861 | $ 251 | 250,982 | $ 16 | 16,157 | $ 11,562,567 | $ (32,735) | $ (13,046) | $ (9,830,317) | $ 1,686,736 | $ 42,665 | $ 1,729,401 |

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

## IAC/INTERACTIVECORP AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Cash flows from operating activities attributable to continuing operations:** | | | |
| Net earnings | $ 283,725 | $ 160,796 | $ 171,577 |
| Less: earnings (loss) from discontinued operations, net of tax | 1,926 | (9,051) | (3,992) |
| **Earnings from continuing operations** | 281,799 | 169,847 | 175,569 |
| Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations: | | | |
| Non-cash compensation expense | 53,005 | 85,625 | 88,588 |
| Depreciation | 58,909 | 52,481 | 56,719 |
| Amortization of intangibles | 59,843 | 35,771 | 22,057 |
| Impairment of long-term investments | 5,268 | 8,685 | — |
| Excess tax benefits from stock-based awards | (32,891) | (57,101) | (22,166) |
| Deferred income taxes | (9,096) | 37,076 | (35,483) |
| Equity in losses of unconsolidated affiliates | 6,615 | 25,345 | 36,300 |
| Acquisition-related contingent consideration fair value adjustments | 343 | — | — |
| Gain on sales of long-term investments | (35,856) | (3,326) | (1,974) |
| Gain on sales of assets | (14,752) | (250) | (1,338) |
| Changes in assets and liabilities, net of effects of acquisitions: | | | |
| Accounts receivable | 10,421 | (30,991) | (58,314) |
| Other assets | (34,632) | (22,991) | 1,287 |
| Accounts payable and other current liabilities | (766) | (14,384) | 57,228 |
| Income taxes payable | 49,191 | 47,010 | (7,048) |
| Deferred revenue | (5,841) | 1,864 | 48,950 |
| Other, net | 19,401 | 19,866 | 12,011 |
| **Net cash provided by operating activities attributable to continuing operations** | 410,961 | 354,527 | 372,386 |
| **Cash flows from investing activities attributable to continuing operations:** | | | |
| Acquisitions, net of cash acquired | (40,690) | (411,035) | (278,469) |
| Capital expenditures | (80,311) | (51,201) | (39,954) |
| Proceeds from maturities and sales of marketable debt securities | 12,502 | 195,501 | 584,935 |
| Purchases of marketable debt securities | — | (53,952) | (203,970) |
| Proceeds from sales of long-term investments | 69,968 | 14,194 | 15,214 |
| Purchases of long-term investments | (51,080) | (36,094) | (90,245) |
| Other, net | 9,594 | (9,501) | (12,697) |
| **Net cash used in investing activities attributable to continuing operations** | (80,017) | (352,088) | (25,186) |
| **Cash flows from financing activities attributable to continuing operations:** | | | |
| Proceeds from issuance of long-term debt | 500,000 | 500,000 | — |
| Principal payments on long-term debt | (15,844) | — | — |
| Purchase of treasury stock | (264,214) | (691,830) | (507,765) |
| Dividends | (79,189) | (68,163) | (10,668) |
| Issuance of common stock, net of withholding taxes | (5,077) | 262,841 | 132,785 |
| Excess tax benefits from stock-based awards | 32,891 | 57,101 | 22,166 |
| Purchase of noncontrolling interests | (67,947) | (4,891) | (3,843) |
| Funds transferred to escrow for Meetic tender offer | (71,512) | — | — |
| Debt issuance costs | (7,399) | (11,001) | — |
| Other, net | (3,787) | 244 | (4,908) |
| **Net cash provided by (used in) financing activities attributable to continuing operations** | 17,922 | 44,301 | (372,233) |
| **Total cash provided by (used in) continuing operations** | 348,866 | 46,740 | (25,033) |
| **Total cash used in discontinued operations** | (1,877) | (3,472) | (8,417) |
| Effect of exchange rate changes on cash and cash equivalents | 3,478 | 2,556 | (4,496) |
| **Net increase (decrease) in cash and cash equivalents** | 350,467 | 45,824 | (37,946) |
| Cash and cash equivalents at beginning of period | 749,977 | 704,153 | 742,099 |
| **Cash and cash equivalents at end of period** | $ 1,100,444 | $ 749,977 | $ 704,153 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1—ORGANIZATION**

IAC is a leading media and Internet company comprised of more than 150 brands and products, including Ask.com, About.com, Match.com, HomeAdvisor and Vimeo. Focused on the areas of search, applications, online dating, media and eCommerce, IAC's family of websites is one of the largest in the world, with over a billion monthly visits across more than 100 countries. IAC includes its Search & Applications, The Match Group, Media and eCommerce reportable 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.

**Change in Reportable Segments**

During the first quarter of 2014, IAC realigned its reportable segments as follows:

- The Company created a new segment called The Match Group that includes Match, which was previously reported as its own separate segment, and DailyBurn and Tutor, which were previously in the Media and Other segments, respectively.
- The businesses within the Local segment (HomeAdvisor, Felix and, for periods prior to July 1, 2013, CityGrid Media) were moved to the eCommerce segment, formerly called the Other segment.
- There were no changes to the Search & Applications segment.

**New Non-GAAP Measure**

In addition, the Company introduced Adjusted EBITDA, a new non-GAAP financial measure, beginning with the first quarter of 2014. Going forward, the Company plans to regularly report Adjusted EBITDA and will no longer report Operating Income Before Amortization. We believe Adjusted EBITDA is a useful measure for analysts and investors as this measure allows a more meaningful comparison between our performance and that of our competitors. Moreover, our management uses this measure internally to evaluate the performance of our business as a whole and our individual business segments.

Refer to Note 15 to the consolidated financial statements for the reconciliation of Adjusted EBITDA to operating income (loss) by reportable segment.

**Search & Applications**

Our Search & Applications segment consists of: Websites, including Ask.com, About.com, Dictionary.com and Citysearch.com (among other properties), through which we provide search services and content; and Applications, including our direct to consumer downloadable applications operations ("B2C") and our partnership operations ("B2B").

**The Match Group**

The Match Group segment consists of our North America dating businesses (which includes Match.com, Chemistry, People Media, OkCupid and other dating businesses operating within the United States and Canada), our International dating businesses (which includes all dating businesses operating outside of the United States and Canada) and our non-dating businesses (consisting of DailyBurn and Tutor).

Through the brands and businesses within our dating businesses, we are a leading provider of subscription-based and ad-supported online personals services in North America, Europe, Latin America, Australia and Asia. We provide these services through websites and applications that we own and operate. Our European operations are conducted through Meetic S.A. ("Meetic"), which is based in France.

DailyBurn is a health and fitness property that provides streaming fitness and workout videos across a variety of platforms, including iOS, Android, Xbox and internet-enabled "connected" televisions. Tutor is an online tutoring solution, which was acquired in December 2012.

**Media**

Our Media segment consists primarily of Vimeo, Electus and The Daily Beast.

Vimeo is a leading global video hosting platform. Vimeo offers video creators simple, professional grade tools to share, distribute and monetize content online, and provides viewers a clutter-free environment to watch content across a variety of internet connected devices.

Electus is an integrated multimedia entertainment studio that unites producers, creators, advertisers and distributors to produce video content for distribution across a variety of platforms in the United States and various jurisdictions abroad. Electus also operates Electus Digital, which consists of the following websites and properties: CollegeHumor.com, Dorkly.com, WatchLOUD.com, YouTube channels WatchLOUD, Nuevon and Hungry and Big Breakfast (a production company).

The Daily Beast (formerly News_Beast) is a website dedicated to news, commentary, culture and entertainment that curates and publishes existing and original online content from its own roster of contributors.

**eCommerce**

Our eCommerce segment consists principally of HomeAdvisor, Felix and Shoebuy.

HomeAdvisor is a leading online marketplace for matching consumers with home services professionals in the United States, as well as in France, the Netherlands and the United Kingdom under various brands.

Felix, which was acquired in August 2012, is a pay-per-call advertising service that powers local commerce by connecting consumers to local businesses at the moment they are ready to make a purchase decision.

Shoebuy is a leading internet retailer of footwear and related apparel and accessories.

## NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Consolidation and Accounting for Investments

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 the common stock or in-substance common stock of 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. Investments in the common stock or in-substance common stock of entities in which the Company does not have the ability to exercise significant influence over the operating and financial matters of the investee are accounted for using the cost method. Investments in companies that IAC does not control, that are not in the form of common stock or in-substance common stock, are also accounted for using the cost method of accounting. The Company evaluates each cost and equity method investment for impairment on a quarterly basis and recognizes an impairment loss if a decline in value is determined to be other-than-temporary. Such impairment evaluations include, but are not limited to: the current business environment, including competition; going concern considerations such as financial condition, the rate at which the investee company utilizes cash and the investee company's ability to obtain additional financing to achieve its business plan; the need for changes to the investee company's existing business model due to changing business environments and its ability to successfully implement necessary changes; and comparable valuations. 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.

### Accounting Estimates

Management of the Company is required to make certain estimates, judgments and assumptions during the preparation of its consolidated financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These estimates, judgments and assumptions 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.

### Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, services are rendered or merchandise is delivered to customers, the fee or price charged is fixed or determinable and collectability is reasonably assured. Deferred revenue is recorded when payments are received in advance of the Company's rendering of services or delivery of merchandise.

***Search & Applications***

The Search & Applications segment's revenue consists principally of advertising revenue, which is generated primarily through the display of paid listings in response to search queries, as well as from advertisements appearing on its destination search websites and portals and certain third-party websites and the syndication of search results generated by Ask-branded destination search websites. The Company obtains the substantial majority of its paid listings from third-party providers, primarily Google Inc. ("Google"). Paid listings are priced on a price per click and when a user submits a search query and clicks on a Google paid listing displayed in response to the query, Google bills the advertiser that purchased the paid listing directly and shares a portion of its related paid listing fee with the Company. The Company recognizes paid listing revenue from Google when it delivers the user's click. In cases where the user's click is generated by a third-party website, the Company recognizes the amount due from Google as revenue and records the revenue share obligation to the third-party website as traffic acquisition costs.

***The Match Group***

Match's revenue is derived primarily from subscription fees for subscription-based online personals and related services. Subscription fee revenue is recognized over the terms of the applicable subscriptions, which primarily range from one to six months. Deferred revenue at Match is $116.5 million and $103.9 million at December 31, 2013 and 2012, respectively. Match also earns revenue from online advertising, which is recognized when an ad is displayed, and the purchase of add-on or premium features.

Tutor's revenue consists of subscription fees that generally entitle the subscriber to a certain number of tutoring sessions over a certain period of time. The subscription revenue is recognized over the term of the subscription based on usage.

***Media***

Revenue of media businesses included in this segment is generated primarily through advertising, media production and subscriptions. Advertising revenue is recognized when an ad is displayed or over the period earned, media production revenue is recognized based on delivery and acceptance and subscription fee revenue is recognized over the terms of the applicable subscriptions, which are one month or one year.

***eCommerce***

HomeAdvisor's lead acceptance revenue is generated and recognized when an in-network home service professional is delivered a consumer lead. HomeAdvisor's membership subscription revenue is generated through subscription sales to service professionals and is deferred and recognized over the period of the membership. HomeAdvisor's website hosting revenue is deferred and recognized over the period of the hosting agreement. HomeAdvisor's activation revenue is generated through the enrollment and activation of a new home service professional. Activation revenue is initially deferred and recognized over twenty-four months. Deferred revenue at HomeAdvisor is $4.0 million and $3.0 million at December 31, 2013 and 2012, respectively.

Shoebuy's revenue consists of merchandise sales, reduced by incentive discounts and sales returns, and is recognized when delivery to the customer has occurred. Delivery is considered to have occurred when the customer takes title and assumes the risks and rewards of ownership, which is on the date of shipment. Accruals for returned merchandise are based on historical experience. Shipping and handling fees billed to customers are recorded as revenue. The costs associated with shipping goods to customers are recorded as cost of revenue.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash and short-term investments, with maturities of less than 91 days from the date of purchase. 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**

The Company invests in certain marketable securities, which primarily consist of equity securities and a short-to-medium-term debt security issued by investment grade corporate issuer. The Company invests in marketable debt securities with active secondary or resale markets to ensure portfolio liquidity to fund current operations or satisfy other cash requirements as needed. The Company also invests in marketable equity securities as part of its investment strategy. All marketable securities are classified as available-for-sale and are reported at fair value. The unrealized gains and losses on marketable securities, net of tax, are included in accumulated other comprehensive income as a separate component of shareholders' equity. 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.

The Company employs a methodology that considers available evidence in evaluating potential other-than-temporary impairments of its investments. Investments are considered to be impaired when a decline in fair value below the amortized cost basis is determined to be other-than-temporary. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the amortized cost basis, the financial condition and near-term prospects of the issuer, and whether it is not more likely than not that the Company will be required to sell the security before the recovery of the amortized cost basis, which may be maturity. If a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in current earnings and a new cost basis in the investment is established.

**Accounts Receivable**

Accounts receivable are stated at amounts due from customers, net of an allowance for doubtful accounts and revenue reserves. Accounts receivable outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the specific customer's ability to pay its obligation to the Company and the condition of the general economy and the customer's industry. The Company writes off accounts receivable when they become uncollectible. The Company also maintains allowances to reserve for potential credits issued to customers or other revenue adjustments. The amounts of these reserves are based, in part, on historical experience.

**Property and Equipment**

Property and equipment, including significant improvements, are recorded at cost. Repairs and maintenance costs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

| Asset Category | Estimated Useful Lives |
|---|---|
| Buildings and leasehold improvements | 3 to 39 Years |
| Computer equipment and capitalized software | 2 to 3 Years |
| Furniture and other equipment | 3 to 10 Years |

The Company capitalizes certain internal use software costs including external direct costs utilized in developing or obtaining the software and compensation and other employee-related costs for personnel directly associated with the development of the software. Capitalization of such costs begins when the preliminary project stage is complete and ceases when the project is substantially complete and ready for its intended purpose. During the second quarter of 2013, the Company wrote off $2.7 million in capitalized software costs at The About Group primarily related to projects that commenced prior to its acquisition. During 2011, the Company wrote off $4.9 million in capitalized software costs associated with the exit of the Company's direct sponsored listings business. The net book value of capitalized internal use software is $30.9 million and $33.4 million at December 31, 2013 and 2012, respectively.

**Goodwill and Indefinite-Lived Intangible Assets**

Goodwill acquired in business combinations is assigned to the reporting units that are expected to benefit from the combination as of the acquisition date. The Company assesses goodwill and indefinite-lived intangible assets for impairment annually as of October 1, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit or the fair value of an indefinite-lived intangible asset below its carrying value.

In 2012, the Company adopted Accounting Standards Update ("ASU") 2011-08, "Testing Goodwill for Impairment", which gives companies the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If the Company elects to perform a qualitative assessment and concludes it is not more likely than not that the fair value of the reporting unit is less than its carrying value, no further assessment of that reporting unit's goodwill is necessary; otherwise, the fair value of the reporting unit has to be determined and if the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the excess is recorded. The Company also adopted Accounting Standards Update 2012-02 "Testing Indefinite-Lived Intangible Assets for Impairment" in 2012, which gives companies the option to qualitatively assess whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If the Company elects to perform a qualitative assessment and concludes it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value, the fair value of the asset does not need to be determined; otherwise, the fair value of the indefinite-lived intangible asset has to be determined and if its carrying value exceeds its estimated fair value, an impairment loss equal to the excess is recorded.

The Company determines the fair values of its reporting units using discounted cash flow ("DCF") analyses, and typically corroborates the concluded fair value using a market based valuation approach. Determining fair value requires the exercise of significant judgment, including judgment about the amount and timing of expected future cash flows and appropriate discount rates. The expected cash flows used in the DCF analyses are based on the Company's most recent budget and, for years beyond the budget, the Company's estimates, which are based, in part, on forecasted growth rates. The discount rates used in the DCF analyses reflect the risks inherent in the expected future cash flows of the respective reporting units. Assumptions used in the DCF analyses, including the discount rate, are assessed annually based on each reporting unit's current results and forecast, as well as macroeconomic and industry specific factors. The discount rates used in the Company's annual goodwill impairment assessment ranged from 13% to 25% in both 2013 and 2012.

The Company determines the fair values of its indefinite-lived intangible assets using avoided royalty DCF analyses. Significant judgments inherent in these analyses include the selection of appropriate royalty and discount rates and estimating the amount and timing of expected future cash flows. The discount rates used in the DCF analyses reflect the risks inherent in the expected future cash flows generated by the respective intangible assets. The royalty rates used in the DCF analyses are based upon an estimate of the royalty rates that a market participant would pay to license the Company's trade names and trademarks. Assumptions used in the avoided royalty DCF analyses, including the discount rate and royalty rate, are assessed annually based on the actual and projected cash flows related to the asset, as well as macroeconomic and industry specific factors. The discount rates used in the Company's annual indefinite-lived impairment assessment ranged from 10% to 18% in both 2013 and 2012, and the royalty rates used ranged from 1% to 9% in both 2013 and 2012.

The Company's reporting units are consistent with its determination of its operating segments. Goodwill is tested for impairment at the reporting unit level. See Note 15 for additional information regarding the Company's method of determining operating and reportable segments.

There were no material impairment charges recorded in 2013, 2012 or 2011. At October 1, 2013, the date of our most recent annual impairment assessment, the fair value of the Company's reporting units significantly exceed their carrying values.

**Long-Lived Assets and Intangible Assets with Definite Lives**

Long-lived assets, which consist of property and equipment and intangible assets with definite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is deemed not to be recoverable, an impairment loss is recorded equal to the amount by which the carrying value of the long-lived asset exceeds its fair value. Amortization of definite-lived intangible assets is computed either on a straight-line basis or based on the pattern in which the economic benefits of the asset will be realized.

**Fair Value Measurements**

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:

- 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 values 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 Note 9 for a discussion of fair value measurements made using Level 3 inputs.

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.

**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. The Company expenses these payments as a component of cost of revenue in the accompanying consolidated statement of operations.

**Advertising Costs**

Advertising costs are expensed in the period incurred (when the advertisement first runs for production costs that are initially capitalized) and represent 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. Advertising expense is $828.8 million, $774.1 million and $499.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company capitalizes and amortizes the costs associated with certain distribution arrangements that require it to pay a fee per access point delivered. These access points are generally in the form of downloadable applications associated with our B2C operations. These fees are amortized over the estimated useful lives of the access points to the extent the Company can reasonably estimate a probable future economic benefit and the period over which such benefit will be realized (generally 18 months). Otherwise, the fees are charged to expense as incurred.

**Legal Costs**

Legal costs are expensed as incurred.

**Income Taxes**

The Company accounts for income taxes under the liability method, and deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the deferred tax asset will not be realized. The Company records interest, net of any applicable related income tax benefit, on potential income tax contingencies as a component of income tax expense.

The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

**Earnings Per Share**

Basic earnings per share ("Basic EPS") is computed by dividing net earnings attributable to IAC shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share ("Diluted EPS") reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised or equity awards vested resulting in the issuance of common stock that could share in the earnings of the Company.

**Foreign Currency Translation and Transaction Gains and Losses**

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange as of the balance sheet date, and local currency revenue and expenses are translated at average rates of exchange during the period. Translation gains and losses are included in accumulated other comprehensive income as a component of shareholders' equity. Transaction gains and losses resulting from assets and liabilities denominated in a currency other than the functional currency are included in the consolidated statement of operations as a component of other income (expense), net.

Translation gains and losses relating to foreign entities that are liquidated or substantially liquidated are reclassified out of accumulated other comprehensive income into earnings. Such gains totaled $9.2 million during the year ended December 31, 2011, and are included in "Earnings (loss) from discontinued operations, net of tax" in the accompanying consolidated statement of operations.

**Stock-Based Compensation**

Stock-based compensation is measured at the grant date based on the fair value of the award and is generally expensed over the requisite service period. See Note 14 for a further description of the Company's stock-based compensation plans.

**Redeemable Noncontrolling Interests**

In connection with the acquisition of certain subsidiaries, management of these businesses has retained an ownership interest. The Company is party to fair value put and call arrangements with respect to these interests. These put and call arrangements allow management of these businesses to require the Company to purchase their interests or allow the Company to acquire such interests at fair value, respectively. The put arrangements do not meet the definition of a derivative instrument as the put agreements do not provide for net settlement. These put and call arrangements become exercisable by the Company and the counter-party at various dates over the next two years. During 2013, two of these arrangements became exercisable. There are no put and call arrangements that became exercisable during 2012. During 2011, one of these arrangements became exercisable. These put arrangements are exercisable by the counter-party outside the control of the Company. Accordingly, to the extent that the fair value of these interests exceeds the value determined by normal noncontrolling interest accounting, the value of such interests is adjusted to fair value with a corresponding adjustment to additional paid-in capital. During the years ended December 31, 2013, 2012 and 2011, the Company recorded adjustments of $40.6 million, $4.3 million and $4.3 million, respectively, to increase these interests to fair value. Fair value determinations require high levels of judgment and are based on various valuation techniques, including market comparables and discounted cash flow projections.

Noncontrolling interests in the consolidated subsidiaries of the Company should ordinarily be reported on the consolidated balance sheet within shareholders' equity, separately from the Company's equity. However, securities that are redeemable at the option of the holder and not solely within the control of the issuer must be classified outside of shareholders' equity. Accordingly, if redemption of the noncontrolling interests is outside the control of the Company, the interests are included outside of shareholders' equity in the accompanying consolidated balance sheet.

Redeemable noncontrolling interests at December 31, 2013 and 2012 relate to certain operations included in The Match Group, Media and eCommerce segments.

**Noncontrolling Interests**

Noncontrolling interests at December 31, 2013 and 2012 relate principally to Meetic.

**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, 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 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 years ended December 31, 2013, 2012 and 2011, revenue earned from Google is $1.5 billion, $1.4 billion and $970.4 million, respectively. This revenue is earned by the businesses comprising the Search & Applications segment. Accounts receivable related to revenue earned from Google totaled $112.3 million and $125.3 million at December 31, 2013 and 2012, respectively.

The Company's business is subject to certain risks and concentrations including dependence on third-party technology providers, exposure to risks associated with online commerce security and credit card fraud.

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and cash equivalents and marketable securities. Cash and cash equivalents are maintained with financial institutions and are in excess of Federal Deposit Insurance Corporation insurance limits.

**Reclassifications**

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

## NOTE 3—CONSOLIDATED FINANCIAL STATEMENT DETAILS

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| **Other current assets:** | | |
| Deferred income taxes | $ 34,381 | $ 20,343 |
| Prepaid expenses | 23,942 | 22,877 |
| Capitalized downloadable search toolbar costs, net | 21,171 | 22,205 |
| Production costs | 17,717 | 20,099 |
| Income taxes receivable | 12,242 | 27,437 |
| Other | 52,077 | 43,378 |
| Other current assets | $ 161,530 | $ 156,339 |

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| **Property and equipment, net:** | | |
| Buildings and leasehold improvements | $ 246,283 | $ 238,652 |
| Computer equipment and capitalized software | 214,762 | 197,402 |
| Furniture and other equipment | 78,451 | 42,949 |
| Projects in progress | 14,649 | 19,303 |
| Land | 5,117 | 5,117 |
| | 559,262 | 503,423 |
| Accumulated depreciation and amortization | (265,298) | (232,911) |
| Property and equipment, net | $ 293,964 | $ 270,512 |

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| **Other non-current assets:** | | |
| Restricted cash - funds held in escrow for Meetic tender offer | $ 71,512 | $ — |
| Production costs | 22,423 | — |
| Income taxes receivable | 19,217 | 79,130 |
| Other | 51,533 | 39,100 |
| Other non-current assets | $ 164,685 | $ 118,230 |

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| **Accrued expenses and other current liabilities:** | | |
| Accrued employee compensation and benefits | $ 85,006 | $ 51,537 |
| Accrued revenue share expense | 72,274 | 78,196 |
| Accrued advertising expense | 63,406 | 73,381 |
| Income taxes payable | 16,159 | 17,679 |
| Unsettled treasury stock purchases | — | 35,113 |
| Other | 114,193 | 99,326 |
| Accrued expenses and other current liabilities | $ 351,038 | $ 355,232 |

| | Years Ended December 31, 2013 | 2012 | 2011 |
|---|---|---|---|
| | (In thousands) | | |
| **Revenue:** | | | |
| Service revenue | $ 2,869,822 | $ 2,639,409 | $ 1,932,289 |
| Product revenue | 153,165 | 161,524 | 127,155 |
| Revenue | $ 3,022,987 | $ 2,800,933 | $ 2,059,444 |

| | Years Ended December 31, 2013 | 2012 | 2011 |
|---|---|---|---|
| | (In thousands) | | |
| **Cost of revenue:** | | | |
| Cost of service revenue | $ 883,730 | $ 835,440 | $ 659,069 |
| Cost of product revenue | 116,371 | 155,357 | 94,820 |
| Cost of revenue | $ 1,000,101 | $ 990,797 | $ 753,889 |

| | Years Ended December 31, 2013 | 2012 | 2011 |
|---|---|---|---|
| | (In thousands) | | |
| **Other income (expense), net:** | | | |
| Gain on sales of long-term investments | $ 35,856 | $ 3,326 | $ 1,974 |
| Interest income | 2,608 | 3,462 | 5,205 |
| Foreign currency exchange (losses) gains, net | (2,883) | (1,050) | 3,660 |
| Impairment of long-term investments | (5,268) | (8,685) | — |
| Non-income tax refunds related to Match Europe, which was sold in 2009 | — | — | 4,630 |
| Other | (4) | (65) | 21 |
| Other income (expense), net | $ 30,309 | $ (3,012) | $ 15,490 |

## NOTE 4—INCOME TAXES

U.S. and foreign earnings from continuing operations before income taxes are as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| U.S. | $ 331,520 | $ 214,675 | $ 142,623 |
| Foreign | 84,781 | 74,387 | 28,899 |
| Total | $ 416,301 | $ 289,062 | $ 171,522 |

The components of the provision (benefit) for income taxes attributable to continuing operations are as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Current income tax provision (benefit):** | | | |
| Federal | $ 115,250 | $ 56,439 | $ 49,450 |
| State | 13,946 | 9,204 | (26,510) |
| Foreign | 14,402 | 16,496 | 8,496 |
| Current income tax provision | 143,598 | 82,139 | 31,436 |
| **Deferred income tax (benefit) provision:** | | | |
| Federal | (821) | 40,414 | (23,293) |
| State | (2,117) | 1,978 | 639 |
| Foreign | (6,158) | (5,316) | (12,829) |
| Deferred income tax (benefit) provision | (9,096) | 37,076 | (35,483) |
| Income tax provision (benefit) | $ 134,502 | $ 119,215 | $ (4,047) |

The current income tax payable was reduced by $32.9 million, $57.1 million and $22.2 million for the years ended December 31, 2013, 2012 and 2011, respectively, for excess tax deductions attributable to stock-based compensation. The related income tax benefits are recorded as increases to additional paid-in capital.

Income taxes (payable) receivable and deferred tax (liabilities) assets are included in the following captions in the accompanying consolidated balance sheet at December 31, 2013 and 2012:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| **Income taxes (payable) receivable:** | | |
| Other current assets | $ 12,242 | $ 27,437 |
| Other non-current assets | 19,217 | 79,130 |
| Accrued expenses and other current liabilities | (16,159) | (17,679) |
| Income taxes payable | (416,384) | (479,945) |
| Net income taxes payable | $ (401,084) | $ (391,057) |
| **Deferred tax (liabilities) assets:** | | |
| Other current assets | $ 34,381 | $ 20,343 |
| Other non-current assets | 26 | 85 |
| Accrued expenses and other current liabilities | (255) | — |
| Deferred income taxes | (320,748) | (323,403) |
| Net deferred tax liabilities | $ (286,596) | $ (302,975) |

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below. The valuation allowance is related to deferred tax assets for which it is more likely than not that the tax benefit will not be realized.

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| **Deferred tax assets:** | | |
| Accrued expenses | $ 28,005 | $ 13,708 |
| Net operating loss carryforwards | 52,336 | 27,177 |
| Tax credit carryforwards | 6,138 | 5,095 |
| Stock-based compensation | 69,101 | 66,962 |
| Income tax reserves, including related interest | 62,852 | 60,596 |
| Fair value investments | 1,151 | 12,189 |
| Equity method investments | 13,584 | 13,809 |
| Other | 11,444 | 13,374 |
| Total deferred tax assets | 244,611 | 212,910 |
| Less valuation allowance | (62,353) | (60,783) |
| Net deferred tax assets | 182,258 | 152,127 |
| **Deferred tax liabilities:** | | |
| Property and equipment | (1,743) | (6,018) |
| Investment in subsidiaries | (377,483) | (373,652) |
| Intangible and other assets | (69,530) | (60,830) |
| Other | (20,098) | (14,602) |
| Total deferred tax liabilities | (468,854) | (455,102) |
| Net deferred tax liability | $ (286,596) | $ (302,975) |

At December 31, 2013, the Company has federal and state net operating losses ("NOLs") of $54.9 million and $77.2 million, respectively. If not utilized, the federal NOLs will expire at various times between 2023 and 2033, and the state NOLs will expire at various times between 2014 and 2033. Utilization of federal NOLs will be subject to limitations under Section 382 of the Internal Revenue Code of 1986, as amended. In addition, utilization of certain state NOLs may be subject to limitations under state laws similar to Section 382 of the Internal Revenue Code of 1986. At December 31, 2013, the Company has foreign NOLs of $98.2 million available to offset future income. Of these foreign NOLs, $93.0 million can be carried forward indefinitely and $5.2 million will expire at various times between 2014 and 2033. During 2013, the Company recognized tax benefits related to NOLs of $10.6 million. Included in this amount is $10.4 million of tax benefits of acquired attributes, which was recorded as a reduction in goodwill. At December 31, 2013, the Company has $34.4 million of state capital losses. If not utilized, the federal and state capital losses will expire between 2014 and 2017. Utilization of capital losses will be limited to the Company's ability to generate future capital gains.

At December 31, 2013, the Company has tax credit carryforwards of $11.9 million. Of this amount, $5.5 million relates to federal credits for foreign taxes, $5.2 million relates to state tax credits for research activities, and $1.2 million relates to various state and local tax credits. Of these credit carryforwards, $6.4 million can be carried forward indefinitely and $5.5 million will expire within ten years.

During 2013, the Company's valuation allowance increased by $1.6 million primarily due to an increase in foreign net operating losses, partially offset by realized gains in long-term marketable equity securities. At December 31, 2013, the Company has a valuation allowance of $62.4 million related to the portion of tax loss carryforwards and other items for which it is more likely than not that the tax benefit will not be realized.

A reconciliation of the income tax provision (benefit) to the amounts computed by applying the statutory federal income tax rate to earnings from continuing operations before income taxes is shown as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Income tax provision at the federal statutory rate of 35% | $ 145,705 | $ 101,172 | $ 60,033 |
| Reversal of deferred tax liability associated with investment in Meetic | — | — | (43,696) |
| Change in tax reserves, net | 1,791 | 17,703 | (15,493) |
| Foreign income taxed at a different statutory tax rate | (17,428) | (16,240) | (11,774) |
| Net adjustment related to the reconciliation of income tax provision accruals to tax returns | (5,237) | (3,876) | (7,298) |
| Federal valuation allowance on equity method investments | 214 | 979 | 4,595 |
| State income taxes, net of effect of federal tax benefit | 7,469 | 7,650 | 5,592 |
| Other, net | 1,988 | 11,827 | 3,994 |
| Income tax provision (benefit) | $ 134,502 | $ 119,215 | $ (4,047) |

No income taxes have been provided on indefinitely reinvested earnings of certain foreign subsidiaries aggregating $517.4 million at December 31, 2013. The amount of the unrecognized deferred income tax liability with respect to such earnings is $119.5 million.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest, is as follows:

| | December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Balance at January 1 | $ 379,281 | $ 351,561 | $ 389,909 |
| Additions based on tax positions related to the current year | 2,887 | 6,278 | 1,749 |
| Additions for tax positions of prior years | 3,189 | 45,287 | 9,560 |
| Reductions for tax positions of prior years | (17,116) | (17,545) | (26,595) |
| Settlements | (78,954) | (5,349) | (16,810) |
| Expiration of applicable statute of limitations | (13,474) | (951) | (6,252) |
| Balance at December 31 | $ 275,813 | $ 379,281 | $ 351,561 |

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 for the years ended December 31, 2013, 2012 and 2011 is a $4.8 million expense, $5.2 million expense and $1.4 million expense, respectively, net of related deferred taxes of $2.8 million, $3.1 million and $0.9 million, respectively, for interest on unrecognized tax benefits. Included in income tax provision for discontinued operations for the years ended December 31, 2013, 2012 and 2011 is a $1.4 million expense, $2.8 million benefit and $6.7 million expense, respectively, net of related deferred taxes of $0.8 million, $1.7 million and $4.2 million, respectively, for interest on unrecognized tax benefits. At December 31, 2013 and 2012, the Company has accrued $133.0 million and $117.5 million, respectively, for the payment of interest. At December 31, 2013 and 2012, the Company has accrued $5.1 million and $5.0 million, respectively, 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. Various jurisdictions are currently under examination, the most significant of which are France, 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 the resolution of 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.

On August 28, 2013, the Joint Committee of Taxation completed its review and approved the audit settlement previously agreed to with the Internal Revenue Service ("IRS") for the years ended December 31, 2001 through 2009. The statute of limitations for the years 2001 through 2009 expires on July 1, 2014. The resolution of this IRS examination resulted in a net liability to the IRS of $7.1 million. At December 31, 2013 and 2012, unrecognized tax benefits, including interest, are $408.8 million and $496.8 million, respectively. Unrecognized tax benefits, including interest, for the year ended December 31, 2013 decreased by $88.0 million due principally to the settlement of the audit of the federal income tax returns for the years ended December 31, 2001 through 2009. The reduction of unrecognized tax benefits was substantially offset by a reduction of receivables related to the same period. Of the total unrecognized tax benefits at December 31, 2013, $405.5 million is included in "Income taxes payable," $3.0 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 December 31, 2013 is $44.7 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 December 31, 2013 are subsequently recognized, $120.9 million and $173.8 million, net of related deferred tax assets and interest, would reduce income tax expense from continuing operations and discontinued operations, respectively. The comparable amounts as of December 31, 2012 are $110.8 million and $222.3 million, respectively. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease within twelve months of the current reporting date. An estimate of changes in unrecognized tax benefits, while potentially significant, cannot be made.

## NOTE 5—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 $113.8 million using the December 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 9 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 year ended December 31, 2012, pro forma adjustments reflected below include an increase of $13.4 million in amortization of intangible assets.

| | Year Ended December 31, 2012 | |
|---|---|---|
| | (In thousands, except per share data) | |
| Revenue | $ | 2,875,903 |
| Net earnings attributable to IAC shareholders | | 166,869 |
| Basic earnings per share attributable to IAC shareholders | | 1.93 |
| Diluted earnings per share attributable to IAC shareholders | | 1.79 |

## NOTE 6—GOODWILL AND INTANGIBLE ASSETS

The Company assesses goodwill and indefinite-lived intangible assets for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit or the fair value of an indefinite-lived intangible asset below its carrying value. The Company also reviews definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of a definite-lived intangible asset may not be recoverable. The Company performs its annual assessment for impairment of goodwill and indefinite-lived intangible assets as of October 1 in connection with the preparation of its annual financial statements. See Note 2 for further discussion of the Company's impairment assessment process for goodwill and intangible assets.

The balance of goodwill and intangible assets, net is as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | (In thousands) | | | |
| Goodwill | $ | 1,675,323 | $ | 1,616,154 |
| Intangible assets with indefinite lives | | 376,329 | | 378,964 |
| Intangible assets with definite lives, net | | 69,007 | | 103,940 |
| Total goodwill and intangible assets, net | $ | 2,120,659 | $ | 2,099,058 |

The following table presents the balance of goodwill by reporting unit, including the changes in the carrying value of goodwill, for the year ended December 31, 2013:

| | Balance at December 31, 2012 | Additions | (Deductions) | Transfers In/(Out) | Foreign Exchange Translation | Balance at December 31, 2013 |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| Search & Applications | $ 723,650 | $ — | $ (160) | $ 14,572 | $ — | $ 738,062 |
| The Match Group | 718,736 | 62,464 | (10,675) | — | 4,878 | 775,403 |
| Media - Connected Ventures | 8,267 | — | — | — | — | 8,267 |
| eCommerce: | | | | | | |
| HomeAdvisor | 111,658 | 5,317 | — | 14,373 | 524 | 131,872 |
| CityGrid Media | 32,124 | — | (3,179) | (28,945) | — | — |
| Shoebuy | 21,719 | — | — | — | — | 21,719 |
| Total eCommerce | 165,501 | 5,317 | (3,179) | (14,572) | 524 | 153,591 |
| Total | $ 1,616,154 | $ 67,781 | $ (14,014) | $ — | $ 5,402 | $ 1,675,323 |

Additions primarily relate to the acquisition of Twoo. Deductions primarily relate to the establishment of a deferred tax asset at Tutor arising from pre-acquisition net operating losses. Transfers in/(out) relate to the reorganization of CityGrid Media in the third quarter of 2013.

The following table presents the balance of goodwill by reporting unit, including the changes in the carrying value of goodwill, for the year ended December 31, 2012:

| | Balance at December 31, 2011 | Additions | (Deductions) | Foreign Exchange Translation | Balance at December 31, 2012 |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Search & Applications | $ 526,444 | $ 197,458 | $ (252) | $ — | $ 723,650 |
| The Match Group | 674,396 | 50,728 | (555) | (5,833) | 718,736 |
| Media - Connected Ventures | 8,267 | — | — | — | 8,267 |
| eCommerce: | | | | | |
| HomeAdvisor | 109,947 | 1,880 | — | (169) | 111,658 |
| CityGrid Media | 17,751 | 14,373 | — | — | 32,124 |
| Shoebuy | 21,719 | — | — | — | 21,719 |
| Total eCommerce | 149,417 | 16,253 | — | (169) | 165,501 |
| Total | $ 1,358,524 | $ 264,439 | $ (807) | $ (6,002) | $ 1,616,154 |

Additions primarily relate to the acquisition of The About Group.

The December 31, 2013, 2012 and 2011 goodwill balances include accumulated impairment losses of $916.9 million, $28.0 million and $11.6 million at Search & Applications, Shoebuy and Connected Ventures, respectively.

Intangible assets with indefinite lives are trade names and trademarks acquired in various acquisitions. At December 31, 2013, intangible assets with definite lives are as follows:

| | Gross Carrying Amount | Accumulated Amortization | Net | Weighted-Average Useful Life (Years) |
|---|---|---|---|---|
| | | (In thousands) | | |
| Content | $ 47,800 | $ (22,373) | $ 25,427 | 4.0 |
| Technology | 41,694 | (25,324) | 16,370 | 2.9 |
| Trade names | 29,283 | (16,427) | 12,856 | 3.0 |
| Customer lists | 22,584 | (13,116) | 9,468 | 2.5 |
| Advertiser and supplier relationships | 10,956 | (6,070) | 4,886 | 2.9 |
| Total | $ 152,317 | $ (83,310) | $ 69,007 | 3.2 |

At December 31, 2012, intangible assets with definite lives are as follows:

| | Gross Carrying Amount | Accumulated Amortization | Net | Weighted-Average Useful Life (Years) |
|---|---|---|---|---|
| | | (In thousands) | | |
| Content | $ 47,800 | $ (4,733) | $ 43,067 | 4.0 |
| Technology | 37,545 | (11,663) | 25,882 | 2.9 |
| Trade names | 22,742 | (7,044) | 15,698 | 3.6 |
| Advertiser and supplier relationships | 16,446 | (7,676) | 8,770 | 4.4 |
| Customer lists | 11,800 | (1,277) | 10,523 | 3.7 |
| Total | $ 136,333 | $ (32,393) | $ 103,940 | 3.7 |

At December 31, 2013, amortization of intangible assets with definite lives for each of the next five years and thereafter is estimated to be as follows:

| Years Ending December 31, | (In thousands) |
|---|---|
| 2014 | $ 38,238 |
| 2015 | 19,131 |
| 2016 | 8,141 |
| 2017 | 2,758 |
| 2018 | 498 |
| Thereafter | 241 |
| Total | $ 69,007 |

## NOTE 7—MARKETABLE SECURITIES

At December 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 | $ 1,004 | $ 4 | $ — | $ 1,008 |
| Total debt security | 1,004 | 4 | — | 1,008 |
| Equity securities | 216 | 4,780 | — | 4,996 |
| Total marketable securities | $ 1,220 | $ 4,784 | $ — | $ 6,004 |

The contractual maturity of the debt security classified as current available-for-sale at December 31, 2013 is less than one year.

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 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:

| | December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Proceeds from maturities and sales of available-for-sale marketable securities | $ 82,160 | $ 205,944 | $ 600,149 |
| Gross realized gains | 35,692 | 4,075 | 2,482 |
| Gross realized losses | — | (5) | (41) |

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

## NOTE 8—LONG-TERM INVESTMENTS

The balance of long-term investments is comprised of:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Cost method investments | $ 137,286 | $ 113,830 |
| Equity method investments | 22,073 | 8,104 |
| Long-term marketable equity securities | 11,711 | 31,244 |
| Auction rate security | 8,920 | 8,100 |
| Total long-term investments | $ 179,990 | $ 161,278 |

**Cost method investments**

In the third quarter of 2011, the Company acquired a 20% interest in the voting common stock of Zhenai Inc. ("Zhenai"), a leading provider of online matchmaking services in China. Our voting power is limited by a shareholders agreement. In light of this limitation and the significance of our interest relative to other shareholders, we do not have the ability to exercise significant influence over the operating and financial matters of Zhenai and this investment is accounted for as a cost method investment.

In the fourth quarter of 2013, the Company recorded a $5.0 million write-down of a cost method investment to fair value. The decline in value was due to the investees continued losses, negative working capital and significant debt financing. The valuation of this investment reflects the Company's assessment of these factors. The Company estimated the fair value of this investment using a multiple of revenue approach.

**Equity method investments**

In 2012 and 2011, the Company recorded pre-tax non-cash charges of $18.6 million and $11.7 million, respectively, related to the re-measurement of the carrying value of our equity method investments in News_Beast and Meetic, respectively, to fair value in connection with the acquisitions of controlling interests. The re-measurement charges are included in "Equity in losses of unconsolidated affiliates" in the accompanying consolidated statement of operations.

The comparability of the summarized aggregated financial information presented below is affected by changes in ownership of our various equity method investments over the three-year period ended December 31, 2013. The operating data for 2011 is primarily comprised of Meetic and News_Beast; the operating data for 2012 is primarily comprised of News_Beast; and the operating data for 2013 is primarily comprised of our equity method investments other than Meetic and News_Beast. The balance sheet data at December 31, 2013 and 2012 is comprised of our equity method investments other than Meetic and News_Beast. Through August 31, 2011 we accounted for our 27% ownership interest in Meetic as an equity method investment. In 2011 we acquired a controlling interest in Meetic and as a result, Meetic is included within our consolidated financial statements beginning September 1, 2011. During 2011 and through May 31, 2012 we accounted for our 50% ownership interest in News_Beast as an equity method investment. In 2012 we acquired a controlling interest in News_Beast and as a result, News_Beast is included within our consolidated financial statements beginning June 1, 2012.

Summarized aggregated financial information for the Company's equity method investments is as follows:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Balance sheet data[a]: | | |
| Current assets | $ 17,163 | $ 10,603 |
| Non-current assets | 24,535 | 25,472 |
| Current liabilities | (24,487) | (20,227) |
| Non-current liabilities | (14,119) | (5,962) |

| | Twelve Months Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Operating data[a]: | | | |
| Net sales | $ 51,534 | $ 78,058 | $ 368,433 |
| Gross profit | 10,326 | 16,777 | 105,749 |
| Net loss | (12,527) | (30,761) | (17,636) |

(a) Summarized financial information for the Company's equity method investments is presented for the periods during which the Company holds or held an equity ownership interest. The summarized financial information for certain equity method investments is presented on a one quarter lag.

**Long-term marketable equity securities**

The cost basis of the Company's long-term marketable equity securities at December 31, 2013 is $8.8 million, with gross unrealized gains of $3.0 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. At December 31, 2013, all the Company's long-term marketable equity securities are in an unrealized gain position. At December 31, 2012, the Company's long-term marketable equity securities were both in an unrealized loss position. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized losses. In 2012, the Company recorded an $8.7 million other-than-temporary impairment charge related to the security that was in a continuous unrealized loss position for more than one year, based on the Company's evaluation of the near-term prospects of the issuer in relation to the severity (fair value was 50 percent less than cost) and duration of the unrealized loss. The impairment charge is included in “Other income (expense), net” in the accompanying consolidated statement of operations. The Company did not consider the second security to be other-than-temporarily impaired at December

31, 2012 based on the Company's evaluation of the near-term prospects of the issuer in relation to the severity and duration, less than two months, of the unrealized loss 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.

**Auction rate security**

See Note 9 for information regarding the auction rate security.

## NOTE 9—FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

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

| | December 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 | $ 698,307 | $ — | $ — | $ 698,307 |
| Commercial paper | — | 12,000 | — | 12,000 |
| Time deposits | — | 32,325 | — | 32,325 |
| Marketable securities: | | | | |
| Corporate debt security | — | 1,008 | — | 1,008 |
| Equity securities | 4,996 | — | — | 4,996 |
| Long-term investments: | | | | |
| Auction rate security | — | — | 8,920 | 8,920 |
| Marketable equity securities | 11,711 | — | — | 11,711 |
| Total | $ 715,014 | $ 45,333 | $ 8,920 | $ 769,267 |
| **Liabilities:** | | | | |
| Contingent consideration arrangement | $ — | $ — | $ (43,625) | $ (43,625) |

| | 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 financial instruments that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| | For the Year Ended | | | |
|---|---|---|---|---|
| | December 31, 2013 | | December 31, 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): | | | | |
| Included in earnings (unrealized) | — | (343) | — | — |
| Included in other comprehensive income (loss) | 820 | (2,445) | 2,230 | — |
| Fair value at date of acquisition | — | (40,837) | — | — |
| Settlements | — | — | — | 10,000 |
| Balance at December 31 | $ 8,920 | $ (43,625) | $ 8,100 | $ — |

There are no gains or losses included in earnings for the year ended December 31, 2011, 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 $1.1 million and $1.9 million at December 31, 2013 and December 31, 2012, respectively. The unrealized losses are included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet. At December 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 December 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.

**Contingent consideration arrangement**

The contingent consideration arrangement entered into in 2013 arose from the acquisition of Twoo (see Note 5 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. The discounted liability of the contingent consideration arrangement ranges from $34.2 million to $51.4 million in these scenarios at December 31, 2013. 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. The contingent consideration arrangement liability at December 31, 2013 includes a current portion of $7.1 million and non-current portion of $36.5 million, which are included in “Accrued expenses and other current liabilities” and “Other long-term liabilities,” respectively, in the accompanying consolidated balance sheet.

The contingent consideration arrangement in 2012 related to OkCupid, which was acquired in January 2011.

**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:

| | December 31, 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 | (1,080,000) | (1,058,396) | (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 10—LONG-TERM DEBT**

The balance of long-term debt is comprised of:

| | December 31, | |
|---|---|---|
| | 2013 | 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 |
| 4.875% Senior Notes due November 30, 2018 (the "2013 Senior Notes"); interest payable each May 30 and November 30, which commences May 30, 2014 | 500,000 | — |
| 4.75% Senior Notes due December 15, 2022 (the "2012 Senior Notes"); interest payable each June 15 and December 15, which commenced June 15, 2013 | 500,000 | 500,000 |
| 5% New York City Industrial Development Agency Liberty Bonds due September 1, 2035 (the "Liberty Bonds"); interest payable each March 1 and September 1, which commenced March 1, 2006 | 80,000 | 80,000 |
| Total long-term debt | 1,080,000 | 595,844 |
| Less current maturities | — | (15,844) |
| Long-term debt, net of current maturities | $ 1,080,000 | $ 580,000 |

On November 15, 2013, the Company issued $500 million aggregate principal amount of 4.875% Senior Notes due November 30, 2018. The 2013 Senior Notes were issued at par. At any time prior to November 30, 2014, we may redeem the 2013 Senior Notes at a redemption price equal to the sum of the principal amount thereof, plus accrued and unpaid interest and a make-whole premium. Thereafter, we may redeem the 2013 Senior Notes at the redemption prices set forth below, together with accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the twelve-month period beginning on November 30 of the years indicated below:

| Year | Percentage |
|---|---|
| 2014 | 104.875% |
| 2015 | 103.250% |
| 2016 | 101.625% |
| 2017 and thereafter | 100.000% |

On December 21, 2012, the Company issued $500 million aggregate principal amount of 4.75% Senior Notes due December 15, 2022. The 2012 Senior Notes were issued at par. At any time prior to December 15, 2017, we may redeem the 2012 Senior Notes at a redemption price equal to the sum of the principal amount thereof, plus accrued and unpaid interest and a make-whole premium. Thereafter, we may redeem the 2012 Senior Notes at the redemption prices set forth below, together with accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

| Year | Percentage |
|---|---|
| 2017 | 102.375% |
| 2018 | 101.583% |
| 2019 | 100.792% |
| 2020 and thereafter | 100.000% |

The 2013 and 2012 Senior Notes are unconditionally guaranteed by certain domestic subsidiaries, which are designated as guarantor subsidiaries. The guarantor subsidiaries are the same for the 2013 and 2012 Senior Notes. See Note 22 for guarantor and non-guarantor financial information.

The indentures governing the 2013 and 2012 Senior Notes contain identical 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 December 31, 2013, 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 million revolving credit facility, which expires on December 21, 2017. The annual fee to maintain the revolving credit facility is 25 basis points. At December 31, 2013 and 2012, there are no outstanding borrowings under the revolving credit facility. IAC's obligation under the revolving credit facility is unconditionally guaranteed by the same domestic subsidiaries that guarantee the 2013 and 2012 Senior Notes and is also secured by the stock of certain of our domestic and foreign subsidiaries.

IAC's payment obligation under the Liberty Bonds is collateralized by a mortgage interest in the corporate headquarters building.

Long-term debt maturities are as follows:

| Years Ending December 31, | | (In thousands) |
|---|---|---|
| 2018 | $ | 500,000 |
| 2022 | | 500,000 |
| 2035 | | 80,000 |
| Total | $ | 1,080,000 |

## NOTE 11—SHAREHOLDERS' EQUITY

### Description of Common Stock and Class B Convertible Common Stock

With respect to matters that may be submitted to a vote or for the consent of IAC's shareholders generally, including the election of directors, each holder of shares of IAC common stock and IAC Class B common stock vote together as a single class. In connection with any such vote, each holder of IAC common stock is entitled to one vote for each share of IAC common stock held and each holder of IAC Class B common stock is entitled to ten votes for each share of IAC Class B common stock held. Notwithstanding the foregoing, the holders of shares of IAC common stock, acting as a single class, are entitled to elect 25% of the total number of IAC's directors, and, in the event that 25% of the total number of directors shall result in a fraction of a director, then the holders of shares of IAC common stock, acting as a single class, are entitled to elect the next higher whole number of IAC's directors. In addition, Delaware law requires that certain matters be approved by the holders of shares of IAC common stock or holders of IAC Class B common stock voting as a separate class.

Shares of IAC Class B common stock are convertible into shares of IAC common stock at the option of the holder thereof, at any time, on a share-for-share basis. Such conversion ratio will in all events be equitably preserved in the event of any recapitalization of IAC by means of a stock dividend on, or a stock split or combination of, outstanding shares of IAC common stock or IAC Class B common stock, or in the event of any merger, consolidation or other reorganization of IAC with another corporation. Upon the conversion of shares of IAC Class B common stock into shares of IAC common stock, those shares of IAC Class B common stock will be retired and will not be subject to reissue. Shares of IAC common stock are not convertible into shares of IAC Class B common stock.

Except as described herein, shares of IAC common stock and IAC Class B common stock are identical. The holders of shares of IAC common stock and the holders of shares of IAC Class B common stock are entitled to receive, share for share, such dividends as may be declared by IAC's Board of Directors out of funds legally available therefore. In the event of a liquidation, dissolution, distribution of assets or winding-up of IAC, the holders of shares of IAC common stock and the holders of shares of IAC Class B common stock are entitled to receive, share for share, all the assets of IAC available for distribution to its stockholders, after the rights of the holders of any IAC preferred stock have been satisfied.

At December 31, 2013, Mr. Diller, Chairman of the Board and Senior Executive of the Company, holds 5.8 million shares, representing 100% of IAC's outstanding Class B common stock. At December 31, 2013, Mr. Diller held shares representing 43.1% of the outstanding total voting power of the Company.

### Description of Preferred Stock

IAC's Board of Directors has the authority to designate, by resolution, the powers, preferences, rights and qualifications, limitations and restrictions of preferred stock issued by IAC without any further vote or action by the shareholders. Any shares of preferred stock so issued would have priority over shares of IAC common stock and shares of IAC Class B common stock with respect to dividend or liquidation rights or both. At December 31, 2013 and 2012 there is no preferred stock issued and outstanding.

### Reserved Common Shares

In connection with equity compensation plans, 24.7 million shares of IAC common stock are reserved at December 31, 2013.

### Warrants

No warrants were outstanding at December 31, 2013. No warrants were issued during the years ended December 31, 2013, 2012 and 2011. During the years ended December 31, 2012 and 2011, 14.3 million and 3.9 million warrants were exercised, respectively. Some of those warrants were exercised on a cashless or net basis. For the years ended December 31, 2012 and 2011, IAC received proceeds of $284.1 million and $76.0 million, respectively.

### Common Stock Repurchases

During 2013 and 2012, the Company purchased 4.5 million and 15.5 million shares of IAC common stock for aggregate consideration, on a trade date basis, of $229.1 million and $716.1 million, respectively.

On April 30, 2013, IAC's Board of Directors authorized the repurchase of up to 10 million shares of IAC common stock. At December 31, 2013, the Company has approximately 8.6 million shares remaining in its share repurchase authorization.

## NOTE 12—ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| | Year Ended December 31, 2013 | | |
|---|---|---|---|
| | Foreign Currency Translation Adjustment | Unrealized (Losses) Gains On Available-For-Sale Securities | Accumulated Other Comprehensive Loss |
| | (In thousands) | | |
| Balance at January 1 | $ (25,073) | $ (7,096) | $ (32,169) |
| Other comprehensive income before reclassifications, net of tax provision of $3.9 million related to unrealized gains | 4,721 | 43,235 | 47,956 |
| Amounts reclassified from accumulated other comprehensive loss, net of tax provision of $6.9 million related to unrealized gains | — | (28,833) | (28,833) |
| Net current period other comprehensive income | 4,721 | 14,402 | 19,123 |
| Balance at December 31 | $ (20,352) | $ 7,306 | $ (13,046) |

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 (expense), net" in the accompanying consolidated statement of operations. Unrealized gains, net of tax, reclassified out of accumulated other comprehensive loss into other income (expense), net for the years ended December 31, 2012 and 2011 were $2.1 million and $2.8 million, respectively.

## NOTE 13—EARNINGS PER SHARE

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

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2011 | |
| | Basic | Diluted | Basic | Diluted | Basic | Diluted |
| | (In thousands, except per share data) | | | | | |
| **Numerator:** | | | | | | |
| Earnings from continuing operations | $ 281,799 | $ 281,799 | $ 169,847 | $ 169,847 | $ 175,569 | $ 175,569 |
| Net loss (earnings) attributable to noncontrolling interests | 2,059 | 2,059 | (1,530) | (1,530) | 2,656 | 2,656 |
| Earnings from continuing operations attributable to IAC shareholders | 283,858 | 283,858 | 168,317 | 168,317 | 178,225 | 178,225 |
| Earnings (loss) from discontinued operations attributable to IAC shareholders | 1,926 | 1,926 | (9,051) | (9,051) | (3,992) | (3,992) |
| Net earnings attributable to IAC shareholders | $ 285,784 | $ 285,784 | $ 159,266 | $ 159,266 | $ 174,233 | $ 174,233 |
| **Denominator:** | | | | | | |
| Weighted average basic shares outstanding | 83,480 | 83,480 | 86,247 | 86,247 | 86,755 | 86,755 |
| Dilutive securities including stock options, warrants and RSUs(a)(b) | — | 3,262 | — | 6,842 | — | 7,566 |
| Denominator for earnings per share—weighted average shares(a)(b) | 83,480 | 86,742 | 86,247 | 93,089 | 86,755 | 94,321 |
| **Earnings (loss) per share attributable to IAC shareholders:** | | | | | | |
| Earnings per share from continuing operations | $ 3.40 | $ 3.27 | $ 1.95 | $ 1.81 | $ 2.05 | $ 1.89 |
| Discontinued operations | 0.02 | 0.02 | (0.10) | (0.10) | (0.04) | (0.04) |
| Earnings per share | $ 3.42 | $ 3.29 | $ 1.85 | $ 1.71 | $ 2.01 | $ 1.85 |

(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"). As of May 8, 2012, there are no warrants outstanding. For the years ended December 31, 2013, 2012 and 2011 approximately 0.4 million, 0.8 million and 1.0 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) Performance-based stock units ("PSUs") are included in the denominator for earnings per share if (i) the applicable performance condition(s) has been met and (ii) the inclusion of the PSUs is dilutive for the respective reporting periods. For the year ended December 31, 2013, all PSUs that were considered to be probable of vesting are included in the calculation of diluted earnings per share as their performance conditions had been met. For the years ended December 31, 2012 and 2011 approximately 0.1 million and 3.1 million PSUs, respectively, that were probable of vesting were excluded from the calculation of diluted earnings per share because the performance conditions had not been met.

## NOTE 14—STOCK-BASED COMPENSATION

IAC currently has three active plans under which awards have been granted. These plans cover stock options to acquire shares of IAC common stock, RSUs, PSUs and restricted stock, as well as provide for the future grant of these and other equity awards. These plans authorize the Company to grant awards to its employees, officers, directors and consultants. At December 31, 2013, there are 13.9 million shares available for grant under the Company's stock-based compensation plans.

The plans were adopted in 2005, 2008 and 2013, have a stated term of ten years, and provide that the exercise price of stock options granted will not be less than the market price of the Company's common stock on the grant date. The plans do not specify grant dates or vesting schedules of awards as those determinations have been delegated to the Compensation and Human Resources Committee of IAC's Board of Directors (the "Committee"). Each grant agreement reflects the vesting schedule for that particular grant as determined by the Committee. Broad-based stock option awards issued to date have generally vested in equal annual installments over a four-year period and RSU awards currently outstanding generally vest in two 50% installments over a three and four-year period, in each case, from the grant date. PSU awards issued to date generally cliff vest at the end of a two to three-year period from the date of grant. In addition to equity awards outstanding under the three plans, stock options and other equity awards outstanding under terminated plans and plans assumed in acquisitions are reflected in the information set forth below.

The amount of stock-based compensation expense recognized in the consolidated statement of operations is reduced by estimated forfeitures, as the expense recorded is based on awards that are ultimately expected to vest. The forfeiture rate is estimated at the grant date based on historical experience and revised, if necessary, in subsequent periods if actual forfeitures differ from the estimated rate.

The total income tax benefit recognized in the accompanying consolidated statement of operations for the years ended December 31, 2013, 2012 and 2011 related to stock-based compensation is $19.3 million, $31.3 million and $32.7 million, respectively.

At December 31, 2013, there is $86.2 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 2.2 years.

**Stock Options**

A summary of changes in outstanding stock options is as follows:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
| | (Shares and intrinsic value in thousands) | | | |
| Outstanding at January 1, 2013 | 10,460 | $ 33.68 | | |
| Granted | 693 | 47.33 | | |
| Exercised | (2,246) | 23.17 | | |
| Forfeited | (783) | 41.87 | | |
| Expired | (50) | 33.91 | | |
| Outstanding at December 31, 2013 | 8,074 | $ 36.98 | 6.8 | $ 255,671 |
| Options exercisable | 3,740 | $ 30.34 | 5.3 | $ 143,307 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between IAC's closing stock price on the last trading day of 2013 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2013. This amount changes based on the fair market value of IAC's common stock. The total intrinsic value of stock options exercised during the years ended December 31, 2013, 2012 and 2011 is $65.6 million, $84.8 million and $70.6 million, respectively.

The following table summarizes the information about stock options outstanding and exercisable at December 31, 2013:

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Outstanding at December 31, 2013 | Weighted-Average Remaining Contractual Life in Years | Weighted-Average Exercise Price | Exercisable at December 31, 2013 | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price |
| | (Shares in thousands) | | | | | |
| $0.01 to $10.00 | 2 | 0.3 | $ 6.98 | 2 | 0.3 | $ 6.98 |
| $10.01 to $20.00 | 559 | 5.4 | 17.55 | 559 | 5.4 | 17.55 |
| $20.01 to $30.00 | 1,277 | 5.0 | 22.14 | 1,031 | 4.8 | 22.24 |
| $30.01 to $40.00 | 2,068 | 7.2 | 32.03 | 1,081 | 7.1 | 31.84 |
| $40.01 to $50.00 | 3,786 | 7.2 | 45.42 | 1,047 | 3.7 | 43.12 |
| $50.01 to $60.00 | 382 | 8.4 | 58.51 | 20 | 8.2 | 56.50 |
| | 8,074 | 6.8 | $ 36.98 | 3,740 | 5.3 | $ 30.34 |

The fair value of each stock option award is estimated on the grant date using the Black-Scholes option pricing model. Approximately 0.7 million, 3.6 million and 2.6 million stock options were granted by the Company during the years ended December 31, 2013, 2012 and 2011, respectively.

The Black-Scholes option pricing model incorporates various assumptions, including expected volatility and expected term. During 2013, 2012 and 2011, expected stock price volatilities were estimated based on the Company's historical volatility. Expected term is based upon the historical exercise behavior of our employees and the risk-free interest rates are based on U.S. Treasury yields for notes with comparable terms as the awards, in effect at the grant date. The following are the weighted average assumptions used in the Black-Scholes option pricing model:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Expected volatility | 29% | 31% | 30% |
| Risk-free interest rate | 1.0% | 0.6% | 2.3% |
| Expected term | 6.2 years | 4.4 years | 6.1 years |
| Dividend yield | 2.0% | 1.2% | — |

The weighted average fair value of stock options granted during the years ended December 31, 2013, 2012 and 2011 with exercise prices equal to the market prices of IAC's common stock on the date of grant are $10.67, $10.69 and $11.08, respectively. There are no stock options issued during the years ended December 31, 2013 and 2011 with exercise prices greater than the market value of IAC's common stock on the date of grant. The weighted average exercise price and weighted average fair value of stock options granted during the year ended December 31, 2012 with exercise prices greater than the market value of IAC's common stock on the date of grant are $60.00 and $7.61, respectively.

Cash received from stock option exercises and the related tax benefit realized for the years ended December 31, 2013, 2012 and 2011 are: $40.7 million and $69.4 million; $58.2 million and $74.3 million; and $89.8 million and $25.5 million, respectively. In December 2013, the Company's former Chief Executive Officer (the "Executive") became the Chairman of the newly created Match Group; in connection with the Executive's new compensation arrangement, the Executive exercised 0.5 million stock options, which were settled by the Company for $9.2 million in cash.

**Restricted Stock Units and Performance-based Stock Units**

RSUs and PSUs are awards in the form of phantom shares or units, denominated in a hypothetical equivalent number of shares of IAC common stock and with the value of each RSU and PSU equal to the fair value of IAC common stock at the date of grant. RSUs and PSUs may be settled in cash, stock or both, as determined by the Committee at the time of grant. Each RSU and PSU grant is subject to service-based vesting, where a specific period of continued employment must pass before an award vests. PSUs also include performance-based vesting, where certain performance targets set at the time of grant must be achieved before an award vests. The Company recognizes expense for all RSUs and PSUs for which vesting is considered probable. For RSU grants, the expense is measured at the grant date as the fair value of IAC common stock and expensed as non-cash compensation over the vesting term. For PSU grants, the expense is measured at the grant date as the fair value of IAC common stock and expensed as non-cash compensation over the vesting term if the performance targets are considered probable of being achieved.

Nonvested RSUs and PSUs outstanding at December 31, 2013 and changes during the year ended December 31, 2013 are as follows:

| | RSUs | | PSUs | |
|---|---|---|---|---|
| | Number of shares | Weighted Average Grant Date Fair Value | Number of shares(a) | Weighted Average Grant Date Fair Value |
| | (Shares in thousands) | | | |
| Nonvested at January 1, 2013 | 370 | $ 39.94 | 1,270 | $ 29.39 |
| Granted | 552 | 42.32 | — | — |
| Vested | (230) | 33.50 | (53) | 29.39 |
| Forfeited | — | — | (895) | 28.71 |
| Nonvested at December 31, 2013 | 692 | $ 43.50 | 322 | $ 31.27 |

(a) Included in the table are PSUs which vest at the end of two or three years in varying amounts depending upon certain performance conditions. The PSU table above includes these awards at their maximum potential payout.

The weighted average fair value of RSUs and PSUs granted during the years ended December 31, 2013, 2012 and 2011 based on market prices of IAC's common stock on the grant date was $42.32, $46.24 and $32.41, respectively. The total fair value of RSUs and PSUs that vested during the years ended December 31, 2013, 2012 and 2011 was $14.5 million, $139.0 million and $33.2 million, respectively.

**Equity Instruments Denominated in the Shares of Certain Subsidiaries**

IAC has granted phantom equity units and stock options in various operating subsidiaries to certain members of the subsidiaries' management. These equity awards vest over a period of years or upon the occurrence of certain prescribed events. In some cases, IAC has taken a preferred interest in the subsidiary with a face value equal to the subsidiary's acquisition price or, when funding a start-up business, its investment cost, or a certain other fixed amount. In some cases, these preferred interests accrete with paid-in-kind dividends at a prescribed rate of return. The value of the phantom equity units and stock options is tied to the value of the common stock of the entity, with the equity awards management receives as a whole generally representing a small minority of the total common stock outstanding. Accordingly, these interests only have value to the extent the relevant business appreciates in value above the preferred interest (including the accretion of dividends), our investment cost or other fixed amount or, in the case of stock options, the initial value utilized to determine the exercise price. These interests can have significant value in the event of significant appreciation. The interests are ultimately settled in IAC common stock or cash at the option of IAC, with fair market value generally determined by negotiation or arbitration, at various dates through 2019. The expense associated with these equity awards is initially measured at fair value at the grant date and is expensed as non-cash compensation over the vesting term. The aggregate number of IAC common shares that would be required to settle these interests at current estimated fair values, including vested and unvested interests, at December 31, 2013 is 1.8 million shares, which is included in the calculation of diluted earnings per share if the effect is dilutive. The comparable amount at December 31, 2012 is 2.0 million shares.

## NOTE 15—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 the "eCommerce" reportable segment, do not meet the quantitative thresholds that require presentation as separate operating segments.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Revenue:** | | | |
| Search & Applications | $ 1,604,950 | $ 1,465,795 | $ 1,040,507 |
| The Match Group | 805,390 | 714,222 | 519,195 |
| Media | 191,434 | 164,051 | 68,996 |
| eCommerce | 422,066 | 457,182 | 431,483 |
| Inter-segment elimination | (853) | (317) | (737) |
| Total | $ 3,022,987 | $ 2,800,933 | $ 2,059,444 |

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Operating Income (Loss):** | | | |
| Search & Applications | $ 340,117 | $ 305,644 | $ 204,006 |
| The Match Group | 228,155 | 200,166 | 134,486 |
| Media | (20,803) | (46,902) | (13,206) |
| eCommerce | (61) | 15,323 | 22,674 |
| Corporate | (121,205) | (150,663) | (150,198) |
| Total | $ 426,203 | $ 323,568 | $ 197,762 |

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Adjusted EBITDA[(a)]:** | | | |
| Search & Applications | $ 385,851 | $ 328,141 | $ 230,464 |
| The Match Group | 266,949 | 236,778 | 163,985 |
| Media | (16,976) | (38,555) | (12,073) |
| eCommerce | 22,890 | 31,200 | 37,936 |
| Corporate | (60,411) | (60,119) | (55,186) |
| Total | $ 598,303 | $ 497,445 | $ 365,126 |

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| **Segment Assets[(b)]:** | | |
| Search & Applications | $ 409,116 | $ 355,159 |
| The Match Group | 341,377 | 227,755 |
| Media | 92,500 | 71,340 |
| eCommerce | 41,827 | 61,922 |
| Corporate | 1,229,205 | 990,594 |
| Total | $ 2,114,025 | $ 1,706,770 |

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Capital expenditures:** | | | |
| Search & Applications | $ 22,215 | $ 15,320 | $ 8,698 |
| The Match Group | 19,997 | 19,853 | 17,447 |
| Media | 1,197 | 1,178 | 905 |
| eCommerce | 8,921 | 8,485 | 10,269 |
| Corporate | 27,981 | 6,365 | 2,635 |
| Total | $ 80,311 | $ 51,201 | $ 39,954 |

(a) The Company's primary financial measure is Adjusted EBITDA, which is defined as operating income excluding: (1) non-cash compensation expense; (2) depreciation; and (3) acquisition-related items consisting of (i) amortization of intangible assets and goodwill and intangible asset impairments and (ii) gains and losses recognized on changes in the fair value of contingent consideration arrangements. The Company believes this measure is useful for analysts and investors as this measure allows a more meaningful comparison between our performance and that of our competitors. Moreover, our management uses this measure internally to evaluate the performance of our business as a whole and our individual business segments. The above items are excluded from our Adjusted EBITDA measure because these items are non-cash in nature, and we believe that by excluding these items, Adjusted EBITDA corresponds more closely to the cash operating income generated from our business, from which capital investments are made and debt is serviced. Adjusted EBITDA has certain limitations in that it does not take into account the impact to IAC's statement of operations of certain expenses. IAC endeavors to compensate for the limitations of the non-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-GAAP measure.

(b) Consistent with the Company's primary metric (described in (a) above), the Company excludes, if applicable, goodwill and intangible assets from the measure of segment assets presented above.

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Revenue** | | | |
| United States | $ 2,081,485 | $ 1,966,383 | $ 1,583,322 |
| All other countries | 941,502 | 834,550 | 476,122 |
| Total | $ 3,022,987 | $ 2,800,933 | $ 2,059,444 |

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| **Long-lived assets (excluding goodwill and intangible assets)** | | |
| United States | $ 271,916 | $ 251,379 |
| All other countries | 22,048 | 19,133 |
| Total | $ 293,964 | $ 270,512 |

The following tables reconcile Adjusted EBITDA to operating income (loss) for the Company's reportable segments:

| | Year Ended December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Adjusted EBITDA | Non-Cash Compensation Expense | Depreciation | Amortization of Intangibles | Acquisition-related Contingent Consideration Fair Value Adjustments | Operating Income (Loss) |
| | (In thousands) | | | | | |
| Search & Applications | $ 385,851 | $ (3) | $ (18,177) | $ (27,554) | $ — | $ 340,117 |
| The Match Group | 266,949 | (1,122) | (20,203) | (17,126) | (343) | 228,155 |
| Media | (16,976) | (633) | (2,124) | (1,070) | — | (20,803) |
| eCommerce | 22,890 | 29 | (8,887) | (14,093) | — | (61) |
| Corporate | (60,411) | (51,276) | (9,518) | — | — | (121,205) |
| Total | $ 598,303 | $ (53,005) | $ (58,909) | $ (59,843) | $ (343) | $ 426,203 |

| | Year Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Adjusted EBITDA | Non-Cash Compensation Expense | Depreciation | Amortization of Intangibles | Operating Income (Loss) |
| | (In thousands) | | | | |
| Search & Applications | $ 328,141 | $ (34) | $ (14,995) | $ (7,468) | $ 305,644 |
| The Match Group | 236,778 | (2,818) | (16,339) | (17,455) | 200,166 |
| Media | (38,555) | (770) | (1,398) | (6,179) | (46,902) |
| eCommerce | 31,200 | 2 | (11,210) | (4,669) | 15,323 |
| Corporate | (60,119) | (82,005) | (8,539) | — | (150,663) |
| Total | $ 497,445 | $ (85,625) | $ (52,481) | $ (35,771) | $ 323,568 |

| | Year Ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Adjusted EBITDA | Non-Cash Compensation Expense | Depreciation | Amortization of Intangibles | Operating Income (Loss) |
| | (In thousands) | | | | |
| Search & Applications | $ 230,464 | $ 202 | $ (25,484) | $ (1,176) | $ 204,006 |
| The Match Group | 163,985 | (1,642) | (10,780) | (17,077) | 134,486 |
| Media | (12,073) | (427) | (703) | (3) | (13,206) |
| eCommerce | 37,936 | (222) | (11,239) | (3,801) | 22,674 |
| Corporate | (55,186) | (86,499) | (8,513) | — | (150,198) |
| Total | $ 365,126 | $ (88,588) | $ (56,719) | $ (22,057) | $ 197,762 |

The following tables reconcile segment assets to total assets:

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Segment Assets | Goodwill | Indefinite-Lived Intangible Assets | Definite-Lived Intangible Assets | Total Assets |
| | (In thousands) | | | | |
| Search & Applications | $ 409,116 | $ 738,062 | $ 195,805 | $ 40,550 | $ 1,383,533 |
| The Match Group | 341,377 | 775,403 | 167,544 | 11,818 | 1,296,142 |
| Media | 92,500 | 8,267 | 1,800 | 944 | 103,511 |
| eCommerce | 41,827 | 153,591 | 11,180 | 15,695 | 222,293 |
| Corporate(c) | 1,229,205 | — | — | — | 1,229,205 |
| Total | $ 2,114,025 | $ 1,675,323 | $ 376,329 | $ 69,007 | $ 4,234,684 |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Segment Assets | Goodwill | Indefinite-Lived Intangible Assets | Definite-Lived Intangible Assets | Total Assets |
| | (In thousands) | | | | |
| Search & Applications | $ 355,159 | $ 723,650 | $ 197,304 | $ 64,457 | $ 1,340,570 |
| The Match Group | 227,755 | 718,736 | 163,298 | 14,012 | 1,123,801 |
| Media | 71,340 | 8,267 | 1,800 | 2,020 | 83,427 |
| eCommerce | 61,922 | 165,501 | 16,562 | 23,451 | 267,436 |
| Corporate(c) | 990,594 | — | — | — | 990,594 |
| Total | $ 1,706,770 | $ 1,616,154 | $ 378,964 | $ 103,940 | $ 3,805,828 |

(c) Corporate assets consist primarily of cash and cash equivalents, marketable securities and IAC's headquarters building.

## NOTE 16—COMMITMENTS

The Company leases land, office space, data center facilities and equipment used in connection with its operations under various operating leases, many of which contain escalation clauses. The Company is also committed to pay a portion of the related operating expenses under a data center lease agreement. These operating expenses are not included in the table below.

Future minimum payments under operating lease agreements are as follows:

| Years Ending December 31, | (In thousands) |
|---|---|
| 2014 | $ 26,295 |
| 2015 | 26,213 |
| 2016 | 25,424 |
| 2017 | 22,354 |
| 2018 | 20,049 |
| Thereafter | 197,846 |
| Total | $ 318,181 |

Expenses charged to operations under these agreements are $36.7 million, $30.6 million and $31.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company's most significant operating lease is a seventy-seven years land lease for IAC's headquarters building in New York City and approximates 57% of the future minimum payments due under all operating lease agreements in the table above.

The Company also has funding commitments that could potentially require its performance in the event of demands by third parties or contingent events as follows:

| | Amount of Commitment Expiration Per Period | | |
|---|---|---|---|
| | Less Than 1 Year | 1-3 Years | Total Amounts Committed |
| | (In thousands) | | |
| Purchase obligations | $ 8,534 | $ 3,009 | $ 11,543 |
| Letters of credit and surety bonds | 2,937 | 69 | 3,006 |
| Total commercial commitments | $ 11,471 | $ 3,078 | $ 14,549 |

The purchase obligations primarily include advertising commitments, which commitments are reducible or terminable such that these commitments can never exceed associated revenue by a meaningful amount. Purchase obligations also include minimum payments due under telecommunication contracts related to data transmission lines. The letters of credit support the Company's casualty insurance program.

## NOTE 17—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 4 for additional information related to income tax contingencies.

## NOTE 18—SUPPLEMENTAL CASH FLOW INFORMATION

**Supplemental Disclosure of Non-Cash Transactions for 2013**

The consideration for the acquisition of Twoo on January 4, 2013 includes a contingent consideration arrangement, which is described in Note 5 and Note 9.

**Supplemental Disclosure of Non-Cash Transactions for 2011**

The consideration for the acquisition of OkCupid on January 20, 2011 includes a contingent consideration arrangement.

**Supplemental Disclosure of Cash Flow Information:**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Cash paid (received) during the year for: | | | |
| Interest | $ 28,705 | $ 5,214 | $ 5,128 |
| Income tax payments | 112,087 | 43,316 | 42,094 |
| Income tax refunds | (17,683) | (8,187) | (3,609) |

## NOTE 19—RELATED PARTY TRANSACTIONS

Each of the Company and Expedia has a 50% ownership interest in an aircraft that may be used by both companies. In 2013, the Company and Expedia completed the purchase of an additional aircraft in which each company has a 50% ownership interest. Members of both aircraft's flight crew are employed by an entity in which each of the Company and Expedia has a 50% ownership interest. The Company and Expedia have agreed to share costs relating to flight crew compensation and benefits pro-rata according to each company's respective usage of the aircrafts, for which they are separately billed by the entity described above. The Company and Expedia are related parties since they are under common control, given that Mr. Diller serves as Chairman and Senior Executive of both IAC and Expedia. For the years ended December 31, 2013, 2012 and 2011, total payments made to this entity by the Company were immaterial.

**NOTE 20—BENEFIT PLANS**

IAC has a retirement savings plan in the United States that qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute up to 50% of their pre-tax earnings, but not more than statutory limits. IAC contributes fifty cents for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant's eligible earnings. Matching contributions for the plan for the years ended December 31, 2013, 2012 and 2011 are $6.5 million, $6.5 million and $5.0 million, respectively. Matching contributions are invested in the same manner as each participant's voluntary contributions in the investment options provided under the plan. Investment options in the plan include IAC common stock, but neither participant nor matching contributions are required to be invested in IAC common stock.

IAC also has or participates in various benefit plans, principally defined contribution plans, for its international employees. IAC's contributions for these plans for the years ended December 31, 2013, 2012 and 2011 are $2.9 million, $2.3 million and $1.4 million, respectively. The increase in contributions in 2012 is primarily related to Meetic, consolidated beginning September 1, 2011.

## NOTE 21—QUARTERLY RESULTS (UNAUDITED)

| | Quarter Ended March 31[a] | Quarter Ended June 30 | Quarter Ended September 30 | Quarter Ended December 31 |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| **Year Ended December 31, 2013** | | | | |
| Revenue | $ 742,249 | $ 799,411 | $ 756,872 | $ 724,455 |
| Cost of revenue | 255,849 | 272,822 | 248,856 | 222,574 |
| Operating income | 84,551 | 106,696 | 122,004 | 112,952 |
| Earnings from continuing operations | 52,709 | 58,540 | 91,721 | 78,829 |
| (Loss) earnings from discontinued operations, net of tax | (944) | (1,068) | 3,914 | 24 |
| Net earnings | 51,765 | 57,472 | 95,635 | 78,853 |
| Net earnings attributable to IAC shareholders | 53,637 | 58,290 | 96,940 | 76,917 |
| **Per share information attributable to IAC shareholders:** | | | | |
| Basic earnings per share from continuing operations[c] | $ 0.65 | $ 0.71 | $ 1.12 | $ 0.93 |
| Diluted earnings per share from continuing operations[c] | $ 0.62 | $ 0.69 | $ 1.08 | $ 0.88 |
| Basic earnings per share[c] | $ 0.64 | $ 0.70 | $ 1.17 | $ 0.93 |
| Diluted earnings per share[c] | $ 0.61 | $ 0.67 | $ 1.13 | $ 0.88 |

| | Quarter Ended March 31[a] | Quarter Ended June 30 [a][b] | Quarter Ended September 30[a] | Quarter Ended December 31 |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| **Year Ended December 31, 2012** | | | | |
| Revenue | $ 640,600 | $ 680,612 | $ 714,470 | $ 765,251 |
| Cost of revenue | 223,300 | 237,304 | 262,275 | 267,918 |
| Operating income | 62,765 | 97,476 | 78,033 | 85,294 |
| Earnings from continuing operations | 31,153 | 48,101 | 46,185 | 44,408 |
| Earnings (loss) from discontinued operations, net of tax | 3,684 | (4,641) | (5,624) | (2,470) |
| Net earnings | 34,837 | 43,460 | 40,561 | 41,938 |
| Net earnings attributable to IAC shareholders | 34,478 | 43,332 | 40,717 | 40,739 |
| **Per share information attributable to IAC shareholders:** | | | | |
| Basic earnings per share from continuing operations[c] | $ 0.37 | $ 0.56 | $ 0.52 | $ 0.49 |
| Diluted earnings per share from continuing operations[c] | $ 0.34 | $ 0.52 | $ 0.49 | $ 0.46 |
| Basic earnings per share[c] | $ 0.42 | $ 0.50 | $ 0.46 | $ 0.46 |
| Diluted earnings per share[c] | $ 0.38 | $ 0.47 | $ 0.43 | $ 0.43 |

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(a) During the second quarter of 2013, certain expenses were reclassified between cost of revenue, selling and marketing expense, general and administrative expense and product development expense. Accordingly, cost of revenue presented above for periods prior to the second quarter of 2013 differs from the amounts reflected in the Company's quarterly reports on Form 10-Q for the first quarter of 2013 and the second and third quarters of 2012.

(b) The second quarter of 2012 includes an after-tax non-cash charge of $16.2 million related to the re-measurement of the carrying value of our equity method investment in News_Beast to fair value in connection with our acquisition of a controlling interest in June 2012.

(c) Quarterly per share amounts may not add to the related annual per share amount because of differences in the average common shares outstanding during each period.

## NOTE 22—GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

The 2013 and 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 December 31, 2013 and December 31, 2012 and for the years ended December 31, 2013, 2012 and 2011 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 December 31, 2013:**

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Cash and cash equivalents | $ 782,022 | $ — | $ 318,422 | $ — | $ 1,100,444 |
| Marketable securities | 1,007 | — | 4,997 | — | 6,004 |
| Accounts receivable, net | 38 | 135,651 | 71,719 | — | 207,408 |
| Other current assets | 45,111 | 76,572 | 40,661 | (814) | 161,530 |
| Intercompany receivables | — | 569,030 | 847,423 | (1,416,453) | — |
| Property and equipment, net | 5,316 | 221,386 | 67,262 | — | 293,964 |
| Goodwill | — | 1,180,159 | 495,164 | — | 1,675,323 |
| Intangible assets, net | — | 302,082 | 143,254 | — | 445,336 |
| Investment in subsidiaries | 3,833,751 | 782,840 | — | (4,616,591) | — |
| Other non-current assets | 83,207 | 15,521 | 252,576 | (6,629) | 344,675 |
| **Total assets** | $ 4,750,452 | $ 3,283,241 | $ 2,241,478 | $ (6,040,487) | $ 4,234,684 |
| | | | | | |
| Accounts payable, trade | $ 4,310 | $ 51,525 | $ 21,818 | $ — | $ 77,653 |
| Other current liabilities | 41,623 | 280,549 | 187,072 | — | 509,244 |
| Long-term debt, net of current maturities | 1,000,000 | 80,000 | — | — | 1,080,000 |
| Income taxes payable | 383,926 | 6,768 | 25,690 | — | 416,384 |
| Intercompany liabilities | 1,416,453 | — | — | (1,416,453) | — |
| Other long-term liabilities | 217,404 | 96,239 | 72,941 | (7,443) | 379,141 |
| Redeemable noncontrolling interests | — | — | 42,861 | — | 42,861 |
| IAC shareholders' equity | 1,686,736 | 2,768,160 | 1,848,431 | (4,616,591) | 1,686,736 |
| Noncontrolling interests | — | — | 42,665 | — | 42,665 |
| **Total liabilities and shareholders' equity** | $ 4,750,452 | $ 3,283,241 | $ 2,241,478 | $ (6,040,487) | $ 4,234,684 |

**Balance sheet at December 31, 2012:**

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Cash and cash equivalents | $ 501,075 | $ — | $ 248,902 | $ — | $ 749,977 |
| Marketable securities | 20,604 | — | — | — | 20,604 |
| Accounts receivable, net | 43 | 145,375 | 84,412 | — | 229,830 |
| Other current assets | 58,452 | 55,002 | 43,922 | (1,037) | 156,339 |
| Intercompany receivables | — | 482,552 | 10,276,552 | (10,759,104) | — |
| Property and equipment, net | 4,116 | 196,240 | 70,156 | — | 270,512 |
| Goodwill | — | 1,190,949 | 425,205 | — | 1,616,154 |
| Intangible assets, net | — | 341,309 | 141,595 | — | 482,904 |
| Investment in subsidiaries | 12,913,694 | 608,656 | — | (13,522,350) | — |
| Other non-current assets | 153,155 | 16,557 | 109,864 | (68) | 279,508 |
| **Total assets** | $ 13,651,139 | $ 3,036,640 | $ 11,400,608 | $ (24,282,559) | $ 3,805,828 |
| Accounts payable, trade | $ 4,366 | $ 65,786 | $ 28,162 | $ — | $ 98,314 |
| Other current liabilities | 74,214 | 231,270 | 222,743 | (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 | 91,437 | 45,632 | 547 | 355,233 |
| Redeemable noncontrolling interests | — | 1,388 | 56,738 | — | 58,126 |
| IAC shareholders' equity | 1,655,728 | 2,540,370 | 10,981,980 | (13,522,350) | 1,655,728 |
| Noncontrolling interests | — | — | 51,907 | — | 51,907 |
| **Total liabilities and shareholders' equity** | $ 13,651,139 | $ 3,036,640 | $ 11,400,608 | $ (24,282,559) | $ 3,805,828 |

**Statement of operations for the year ended December 31, 2013:**

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenue | $ — | $ 2,183,969 | $ 843,133 | $ (4,115) | $ 3,022,987 |
| Costs and expenses: | | | | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 2,456 | 597,350 | 403,155 | (2,860) | 1,000,101 |
| Selling and marketing expense | 2,563 | 768,270 | 194,431 | (1,133) | 964,131 |
| General and administrative expense | 97,025 | 167,795 | 107,772 | (122) | 372,470 |
| Product development expense | 4,685 | 100,734 | 35,911 | — | 141,330 |
| Depreciation | 1,386 | 38,938 | 18,585 | — | 58,909 |
| Amortization of intangibles | — | 40,277 | 19,566 | — | 59,843 |
| Total costs and expenses | 108,115 | 1,713,364 | 779,420 | (4,115) | 2,596,784 |
| Operating (loss) income | (108,115) | 470,605 | 63,713 | — | 426,203 |
| Equity in earnings (losses) of unconsolidated affiliates | 439,925 | 62,402 | (303) | (508,639) | (6,615) |
| Interest expense | (29,417) | (3,979) | (200) | — | (33,596) |
| Other (expense) income, net | (35,331) | (35,040) | 100,680 | — | 30,309 |
| Earnings from continuing operations before income taxes | 267,062 | 493,988 | 163,890 | (508,639) | 416,301 |
| Income tax benefit (provision) | 16,796 | (156,170) | 4,872 | — | (134,502) |
| **Earnings from continuing operations** | 283,858 | 337,818 | 168,762 | (508,639) | 281,799 |
| Earnings (losses) from discontinued operations, net of tax | 1,926 | — | (39) | 39 | 1,926 |
| **Net earnings** | 285,784 | 337,818 | 168,723 | (508,600) | 283,725 |
| Net loss attributable to noncontrolling interests | — | 411 | 1,648 | — | 2,059 |
| **Net earnings attributable to IAC shareholders** | $ 285,784 | $ 338,229 | $ 170,371 | $ (508,600) | $ 285,784 |
| **Comprehensive income attributable to IAC shareholders** | $ 304,907 | $ 339,094 | $ 181,070 | $ (520,164) | $ 304,907 |

**Statement of operations for the year ended December 31, 2012:**

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenue | $ — | $ 1,986,527 | $ 820,759 | $ (6,353) | $ 2,800,933 |
| Costs and expenses: | | | | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 5,194 | 594,631 | 395,877 | (4,905) | 990,797 |
| Selling and marketing expense | 4,081 | 669,448 | 222,481 | (1,465) | 894,545 |
| General and administrative expense | 121,919 | 155,123 | 109,029 | 17 | 386,088 |
| Product development expense | 5,611 | 83,008 | 29,064 | — | 117,683 |
| Depreciation | 832 | 35,544 | 16,105 | — | 52,481 |
| Amortization of intangibles | — | 10,958 | 24,813 | — | 35,771 |
| Total costs and expenses | 137,637 | 1,548,712 | 797,369 | (6,353) | 2,477,365 |
| Operating (loss) income | (137,637) | 437,815 | 23,390 | — | 323,568 |
| Equity in earnings (losses) of unconsolidated affiliates | 309,639 | 37,866 | (22,548) | (350,302) | (25,345) |
| Interest expense | (1,835) | (4,174) | (140) | — | (6,149) |
| Other (expense) income, net | (82,900) | (3,733) | 83,621 | — | (3,012) |
| Earnings from continuing operations before income taxes | 87,267 | 467,774 | 84,323 | (350,302) | 289,062 |
| Income tax benefit (provision) | 81,050 | (146,333) | (53,932) | — | (119,215) |
| **Earnings from continuing operations** | 168,317 | 321,441 | 30,391 | (350,302) | 169,847 |
| (Loss) earnings from discontinued operations, net of tax | (9,051) | — | 842 | (842) | (9,051) |
| **Net earnings** | 159,266 | 321,441 | 31,233 | (351,144) | 160,796 |
| Net loss (earnings) attributable to noncontrolling interests | — | 206 | (1,736) | — | (1,530) |
| **Net earnings attributable to IAC shareholders** | $ 159,266 | $ 321,647 | $ 29,497 | $ (351,144) | $ 159,266 |
| **Comprehensive income attributable to IAC shareholders** | $ 139,540 | $ 322,418 | $ 29,622 | $ (352,040) | $ 139,540 |

**Statement of operations for the year ended December 31, 2011:**

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenue | $ 413 | $ 1,552,508 | $ 509,270 | $ (2,747) | $ 2,059,444 |
| Costs and expenses: | | | | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 4,763 | 493,480 | 256,800 | (1,154) | 753,889 |
| Selling and marketing expense | 4,385 | 500,118 | 114,310 | (1,615) | 617,198 |
| General and administrative expense | 120,908 | 136,511 | 63,621 | 22 | 321,062 |
| Product development expense | 7,299 | 70,219 | 13,239 | — | 90,757 |
| Depreciation | 799 | 44,940 | 10,980 | — | 56,719 |
| Amortization of intangibles | — | 3,593 | 18,464 | — | 22,057 |
| Total costs and expenses | 138,154 | 1,248,861 | 477,414 | (2,747) | 1,861,682 |
| Operating (loss) income | (137,741) | 303,647 | 31,856 | — | 197,762 |
| Equity in earnings (losses) of unconsolidated affiliates | 696,250 | 29,607 | (32,866) | (729,291) | (36,300) |
| Interest expense | (1,111) | (4,259) | (60) | — | (5,430) |
| Other (expense) income, net | (732,588) | 2,689 | 745,389 | — | 15,490 |
| (Loss) earnings from continuing operations before income taxes | (175,190) | 331,684 | 744,319 | (729,291) | 171,522 |
| Income tax benefit (provision) | 353,415 | (126,196) | (223,172) | — | 4,047 |
| **Earnings from continuing operations** | 178,225 | 205,488 | 521,147 | (729,291) | 175,569 |
| (Loss) earnings from discontinued operations, net of tax | (3,992) | — | 4,877 | (4,877) | (3,992) |
| **Net earnings** | 174,233 | 205,488 | 526,024 | (734,168) | 171,577 |
| Net loss attributable to noncontrolling interests | — | 60 | 2,596 | — | 2,656 |
| **Net earnings attributable to IAC shareholders** | $ 174,233 | $ 205,548 | $ 528,620 | $ (734,168) | $ 174,233 |
| **Comprehensive income attributable to IAC shareholders** | $ 144,244 | $ 205,895 | $ 484,333 | $ (690,228) | $ 144,244 |

**Statement of cash flows for the year ended December 31, 2013:**

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Net cash (used in) provided by operating activities attributable to continuing operations** | $ (95,081) | $ 537,116 | $ (31,074) | $ — | $ 410,961 |
| **Cash flows from investing activities attributable to continuing operations:** | | | | | |
| Acquisitions, net of cash acquired | — | (6,638) | (34,052) | — | (40,690) |
| Capital expenditures | (1,387) | (63,931) | (14,993) | — | (80,311) |
| Proceeds from maturities and sales of marketable debt securities | 12,502 | — | — | — | 12,502 |
| Proceeds from sales of long-term investments | 7,839 | 50,850 | 11,279 | — | 69,968 |
| Purchases of long-term investments | (17,814) | — | (33,266) | — | (51,080) |
| Other, net | — | (1,725) | 11,319 | — | 9,594 |
| **Net cash provided by (used in) investing activities attributable to continuing operations** | 1,140 | (21,444) | (59,713) | — | (80,017) |
| **Cash flows from financing activities attributable to continuing operations:** | | | | | |
| Proceeds from issuance of long-term debt | 500,000 | — | — | — | 500,000 |
| Principal payments on long-term debt | (15,844) | — | — | — | (15,844) |
| Purchase of treasury stock | (264,214) | — | — | — | (264,214) |
| Dividends | (79,189) | — | — | — | (79,189) |
| Issuance of common stock, net of withholding taxes | (5,077) | — | — | — | (5,077) |
| Excess tax benefits from stock-based awards | 32,081 | — | 810 | — | 32,891 |
| Purchase of noncontrolling interests | — | — | (67,947) | — | (67,947) |
| Funds transferred to escrow for Meetic tender offer | — | — | (71,512) | — | (71,512) |
| Debt issuance costs | (7,399) | — | — | — | (7,399) |
| Intercompany | 216,359 | (514,464) | 298,105 | — | — |
| Other, net | — | (1,225) | (2,562) | — | (3,787) |
| **Net cash provided by (used in) financing activities attributable to continuing operations** | 376,717 | (515,689) | 156,894 | — | 17,922 |
| **Total cash provided by (used in) continuing operations** | 282,776 | (17) | 66,107 | — | 348,866 |
| **Total cash used in discontinued operations** | (1,829) | — | (48) | — | (1,877) |
| Effect of exchange rate changes on cash and cash equivalents | — | 17 | 3,461 | — | 3,478 |
| **Net increase in cash and cash equivalents** | 280,947 | — | 69,520 | — | 350,467 |
| Cash and cash equivalents at beginning of period | 501,075 | — | 248,902 | — | 749,977 |
| **Cash and cash equivalents at end of period** | $ 782,022 | $ — | $ 318,422 | $ — | $ 1,100,444 |

**Statement of cash flows for the year ended December 31, 2012:**

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Net cash (used in) provided by operating activities attributable to continuing operations** | $ (116,353) | $ 453,692 | $ 17,188 | $ — | $ 354,527 |
| **Cash flows from investing activities attributable to continuing operations:** | | | | | |
| Acquisitions, net of cash acquired | (35,159) | (341,963) | (33,913) | — | (411,035) |
| Capital expenditures | (3,969) | (29,550) | (17,682) | — | (51,201) |
| Proceeds from maturities and sales of marketable debt securities | 195,501 | — | — | — | 195,501 |
| Purchases of marketable debt securities | (53,952) | — | — | — | (53,952) |
| Proceeds from sales of long-term investments | 14,194 | — | — | — | 14,194 |
| Purchases of long-term investments | (27,187) | (724) | (8,183) | — | (36,094) |
| Other, net | (351) | 117 | (9,267) | — | (9,501) |
| **Net cash provided by (used in) investing activities attributable to continuing operations** | 89,077 | (372,120) | (69,045) | — | (352,088) |
| **Cash flows from financing activities attributable to continuing operations:** | | | | | |
| Proceeds from issuance of long-term debt | 500,000 | — | — | — | 500,000 |
| Purchase of treasury stock | (691,830) | — | — | — | (691,830) |
| Dividends | (68,163) | — | — | — | (68,163) |
| Issuance of common stock, net of withholding taxes | 262,841 | — | — | — | 262,841 |
| Excess tax benefits from stock-based awards | 52,209 | 4,892 | — | — | 57,101 |
| Purchase of noncontrolling interests | (1,936) | — | (2,955) | — | (4,891) |
| Debt issuance costs | (11,001) | — | — | — | (11,001) |
| Intercompany | (55,020) | (86,446) | 141,466 | — | — |
| Other, net | — | — | 244 | — | 244 |
| **Net cash (used in) provided by financing activities attributable to continuing operations** | (12,900) | (81,554) | 138,755 | — | 44,301 |
| **Total cash (used in) provided by continuing operations** | (40,176) | 18 | 86,898 | — | 46,740 |
| **Total cash (used in) provided by discontinued operations** | (3,971) | — | 499 | — | (3,472) |
| Effect of exchange rate changes on cash and cash equivalents | — | (18) | 2,574 | — | 2,556 |
| **Net (decrease) increase in cash and cash equivalents** | (44,147) | — | 89,971 | — | 45,824 |
| Cash and cash equivalents at beginning of period | 545,222 | — | 158,931 | — | 704,153 |
| **Cash and cash equivalents at end of period** | $ 501,075 | $ — | $ 248,902 | $ — | $ 749,977 |

**Statement of cash flows for the year ended December 31, 2011:**

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Net cash (used in) provided by operating activities attributable to continuing operations** | $ (75,300) | $ 367,719 | $ 79,967 | $ — | $ 372,386 |
| **Cash flows from investing activities attributable to continuing operations:** | | | | | |
| Acquisitions, net of cash acquired | — | (80,998) | (197,471) | — | (278,469) |
| Capital expenditures | (798) | (29,542) | (9,614) | — | (39,954) |
| Proceeds from maturities and sales of marketable debt securities | 267,635 | — | 317,300 | — | 584,935 |
| Purchases of marketable debt securities | (74,240) | — | (129,730) | — | (203,970) |
| Proceeds from sales of long-term investments | 10,214 | — | 5,000 | — | 15,214 |
| Purchases of long-term investments | (35,263) | (51,008) | (3,974) | — | (90,245) |
| Other, net | — | 1,886 | (14,583) | — | (12,697) |
| **Net cash provided by (used in) investing activities attributable to continuing operations** | 167,548 | (159,662) | (33,072) | — | (25,186) |
| **Cash flows from financing activities attributable to continuing operations:** | | | | | |
| Purchase of treasury stock | (507,765) | — | — | — | (507,765) |
| Dividends | (10,668) | — | — | — | (10,668) |
| Issuance of common stock, net of withholding taxes | 132,785 | — | — | — | 132,785 |
| Excess tax benefits from stock-based awards | 22,166 | — | — | — | 22,166 |
| Purchase of noncontrolling interests | (3,843) | — | — | — | (3,843) |
| Intercompany | 824,194 | (207,950) | (616,244) | — | — |
| Other, net | — | (249) | (4,659) | — | (4,908) |
| **Net cash provided by (used in) financing activities attributable to continuing operations** | 456,869 | (208,199) | (620,903) | — | (372,233) |
| **Total cash provided by (used in) continuing operations** | 549,117 | (142) | (574,008) | — | (25,033) |
| **Total cash used in discontinued operations** | (7,166) | — | (1,251) | — | (8,417) |
| Effect of exchange rate changes on cash and cash equivalents | 3,271 | 142 | (7,909) | — | (4,496) |
| **Net increase (decrease) in cash and cash equivalents** | 545,222 | — | (583,168) | — | (37,946) |
| Cash and cash equivalents at beginning of period | — | — | 742,099 | — | 742,099 |
| **Cash and cash equivalents at end of period** | $ 545,222 | $ — | $ 158,931 | $ — | $ 704,153 |

**Schedule II**

## IAC/INTERACTIVECORP AND SUBSIDIARIES

## VALUATION AND QUALIFYING ACCOUNTS

| Description | Balance at Beginning of Period | Charges to Earnings | Charges to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **2013** | | | | | |
| Allowance for doubtful accounts and revenue reserves | $ 8,775 | $ 12,275 (1) | $ 564 | $ (13,074) (5) | $ 8,540 |
| Magazine publishing allowance for newsstand returns | 2,313 | 164 (2) | 45 | (2,522) (6) | — |
| Sales returns accrual | 1,244 | 19,176 | — | (19,212) | 1,208 |
| Deferred tax valuation allowance | 60,783 | 8,864 (3) | (7,294) (4) | — | 62,353 |
| Other reserves | 1,925 | | | | 2,518 |
| **2012** | | | | | |
| Allowance for doubtful accounts and revenue reserves | $ 7,309 | $ 12,237 (1) | $ 654 | $ (11,425) (5) | $ 8,775 |
| Magazine publishing allowance for newsstand returns | — | 10,426 (2) | 33 | (8,146) (6) | 2,313 |
| Sales returns accrual | 1,020 | 17,728 | — | (17,504) | 1,244 |
| Deferred tax valuation allowance | 45,084 | 9,320 (7) | 6,379 (8) | — | 60,783 |
| Other reserves | 2,119 | | | | 1,925 |
| **2011** | | | | | |
| Allowance for doubtful accounts and revenue reserves | $ 8,848 | $ 8,898 (1) | $ (329) | $ (10,108) (5) | $ 7,309 |
| Sales returns accrual | 913 | 16,573 | — | (16,466) | 1,020 |
| Deferred tax valuation allowance | 40,266 | 5,732 (9) | (914) (10) | — | 45,084 |
| Other reserves | 1,555 | | | | 2,119 |

(1) Additions to the allowance for doubtful accounts are charged to expense. Additions to the revenue reserves are charged against revenue.

(2) Additions to the magazine publishing allowance for newsstand returns are related to magazine publishing at Newsweek and are charged against revenue. The Newsweek print business was transitioned to a digital only publication in December 2012 (and was subsequently sold in August 2013).

(3) Amount is primarily related to foreign and federal net operating losses, partially offset by a decrease in deferred tax assets for investments in subsidiaries and available-for-sale securities.

(4) Amount is primary related to the release of a valuation allowance on unrealized gains on available-for-sale securities included in accumulated other comprehensive income

(5) Write-off of fully reserved accounts receivable.

(6) Amount represents returns of magazines at Newsweek. The Newsweek print business was transitioned to a digital only publication in December 2012 (and was subsequently sold in August 2013).

(7) Amount is primarily related to an unbenefited other-than-temporary impairment charge related to a long-term marketable equity security, an increase in deferred tax assets for investments in subsidiaries and an increase in federal net operating losses.

(8) Amount is primary related to unbenefited unrealized losses on available-for-sale securities included in accumulated other comprehensive income.

(9) Amount is primarily related to losses from equity method investments.

(10) Amount is primary related to the net release of the valuation allowance on net benefited losses for 2011 unrealized gains on available-for-sale securities included in accumulated other comprehensive income.