

IAC/INTERACTIVECORP

Form 10-Q

July 31, 2014

QuickLinks -- Click here to rapidly navigate through this document

As filed with the Securities and Exchange Commission on July 31, 2014

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2014

Or

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

For the transition period from _____ to _____

Commission File No. 0-20570

IAC/INTERACTIVECORP

(Exact name of registrant as specified in its charter)

Delaware

59-2712887

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

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

(Address of registrant's principal executive offices)

(212) 314-7300

(Registrant's telephone number, including area code)

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

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

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

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

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

As of July 25, 2014, the following shares of the registrant's common stock were outstanding:

Common Stock 77,597,075
Class B Common Stock 5,789,499

Edgar Filing: IAC/INTERACTIVECORP - Form 10-Q

| | |
|--------------------------------|------------|
| Total outstanding Common Stock | 83,386,574 |
|--------------------------------|------------|

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of July 25, 2014 was \$5,121,561,426. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

TABLE OF CONTENTS

| | | Page Number |
|-----------------|--|----------------|
| <u>PART I</u> | | |
| <u>Item 1.</u> | <u>Consolidated Financial Statements</u> | <u>3</u> |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>31</u> |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | <u>47</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | <u>48</u> |
| <u>PART II</u> | | |
| <u>Item 1A.</u> | <u>Risk Factors</u> | <u>49</u> |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>49</u> |
| <u>Item 6.</u> | <u>Exhibits</u> | <u>50</u> |
| | <u>Signatures</u> | <u>52</u> |

PART I

FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

IAC/INTERACTIVECORP

CONSOLIDATED BALANCE SHEET

(Unaudited)

| | June 30, 2014 | December 31, 2013 |
|--|-----------------------------------|----------------------|
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | \$987,326 | \$1,100,444 |
| Marketable securities | 81,611 | 6,004 |
| Accounts receivable, net of allowance of \$11,443 and \$8,540 respectively | 223,436 | 207,408 |
| Other current assets | 185,059 | 161,530 |
| Total current assets | 1,477,432 | 1,475,386 |
| Property and equipment, net of accumulated depreciation and amortization of \$277,966 and \$265,298, respectively | 291,289 | 293,964 |
| Goodwill | 1,720,650 | 1,675,323 |
| Intangible assets, net of accumulated amortization of \$85,407 and \$83,310, respectively | 470,361 | 445,336 |
| Long-term investments | 119,487 | 179,990 |
| Other non-current assets | 88,259 | 164,685 |
| TOTAL ASSETS | \$4,167,478 | \$4,234,684 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Accounts payable, trade | \$58,569 | \$77,653 |
| Deferred revenue | 184,423 | 158,206 |
| Accrued expenses and other current liabilities | 344,738 | 351,038 |
| Total current liabilities | 587,730 | 586,897 |
| Long-term debt | 1,080,000 | 1,080,000 |
| Income taxes payable | 420,408 | 416,384 |
| Deferred income taxes | 327,957 | 320,748 |
| Other long-term liabilities | 52,419 | 58,393 |
| Redeemable noncontrolling interests | 24,137 | 42,861 |
| Commitments and contingencies | | |
| SHAREHOLDERS' EQUITY: | | |
| Common stock \$.001 par value; authorized 1,600,000,000 shares; issued 251,393,985 and 250,982,079 shares, respectively and outstanding 77,579,984 and 76,404,552 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 | 11,358,763 | 11,562,567 |
| Accumulated deficit | (14,846 |) (32,735 |
| Accumulated other comprehensive loss | (9,906 |) (13,046 |
| Treasury stock 184,182,001 and 184,945,527 shares, respectively | (9,661,350 |) (9,830,317 |

Edgar Filing: IAC/INTERACTIVECORP - Form 10-Q

| | | |
|---|--------------------|--------------------|
| Total IAC shareholders' equity | 1,672,928 | 1,686,736 |
| Noncontrolling interests | 1,899 | 42,665 |
| Total shareholders' equity | 1,674,827 | 1,729,401 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$4,167,478 | \$4,234,684 |

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

3

IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|---------------------------------------|------------|---------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands, except per share data) | | | |
| Revenue | \$756,315 | \$799,411 | \$1,496,562 | \$1,541,660 |
| Operating costs and expenses: | | | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 211,100 | 272,822 | 420,294 | 528,671 |
| Selling and marketing expense | 272,786 | 247,153 | 571,498 | 490,067 |
| General and administrative expense | 109,719 | 103,515 | 204,535 | 199,239 |
| Product development expense | 38,357 | 34,052 | 77,373 | 69,169 |
| Depreciation | 15,257 | 17,036 | 30,075 | 31,052 |
| Amortization of intangibles | 13,406 | 18,137 | 25,385 | 32,215 |
| Total operating costs and expenses | 660,625 | 692,715 | 1,329,160 | 1,350,413 |
| Operating income | 95,690 | 106,696 | 167,402 | 191,247 |
| Equity in losses of unconsolidated affiliates | (6,850) |) (1,078) |) (8,785) |) (1,169) |
| Interest expense | (14,046) |) (7,658) |) (28,110) |) (15,321) |
| Other (expense) income, net | (62,900) |) (4) |) (62,923) |) 1,654 |
| Earnings from continuing operations before income taxes | 11,894 | 97,956 | 67,584 | 176,411 |
| Income tax provision | (29,889) |) (39,416) |) (51,274) |) (65,162) |
| (Loss) earnings from continuing operations | (17,995) |) 58,540 | 16,310 | 111,249 |
| Loss from discontinued operations, net of tax | (868) |) (1,068) |) (1,682) |) (2,012) |
| Net (loss) earnings | (18,863) |) 57,472 | 14,628 | 109,237 |
| Net loss attributable to noncontrolling interests | 867 | 818 | 3,261 | 2,690 |
| Net (loss) earnings attributable to IAC shareholders | \$(17,996) |) \$58,290 | \$17,889 | \$111,927 |
| Per share information attributable to IAC shareholders: | | | | |
| Basic (loss) earnings per share from continuing operations | \$(0.21) |) \$0.71 | \$0.24 | \$1.36 |
| Diluted (loss) earnings per share from continuing operations | \$(0.21) |) \$0.69 | \$0.22 | \$1.31 |
| Basic (loss) earnings per share | \$(0.22) |) \$0.70 | \$0.22 | \$1.33 |
| Diluted (loss) earnings per share | \$(0.22) |) \$0.67 | \$0.20 | \$1.29 |
| Dividends declared per share | \$0.24 | \$0.24 | \$0.48 | \$0.48 |
| Non-cash compensation expense by function: | | | | |
| Cost of revenue | \$459 | \$681 | \$451 | \$1,301 |
| Selling and marketing expense | 657 | 794 | 853 | 1,180 |
| General and administrative expense | 13,707 | 9,427 | 21,659 | 20,207 |
| Product development expense | 1,729 | 918 | 3,202 | 1,795 |
| Total non-cash compensation expense | \$16,552 | \$11,820 | \$26,165 | \$24,483 |

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

IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|------------|---------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands) | | | |
| Net (loss) earnings | \$(18,863 |) \$57,472 | \$14,628 | \$109,237 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Change in foreign currency translation adjustment | (187 |) (4,598 |) 5,190 | (13,021 |
| Change in net unrealized (losses) gains on available-for-sale securities (net of tax benefits of \$865 and \$1,438 for the three and six months ended June 30, 2014, respectively, and tax provision of \$740 and tax benefit of \$84 for the three and six months ended June 30, 2013, respectively) | (2,139 |) 17,187 | (2,250 |) 12,211 |
| Total other comprehensive (loss) income, net of tax | (2,326 |) 12,589 | 2,940 | (810 |
| Comprehensive (loss) income | (21,189 |) 70,061 | 17,568 | 108,427 |
| Comprehensive loss attributable to noncontrolling interests | 984 | 138 | 3,461 | 3,482 |
| Comprehensive (loss) income attributable to IAC shareholders | \$(20,205 |) \$70,199 | \$21,029 | \$111,909 |

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

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

| | Redeemable Noncontrolling Interests | IAC Shareholders' Equity | | | | | | Accumulated Deficit | Accumulated Other Comprehensive Loss | Treasury Stock | Total IAC Shareholders' Equity | Non Inter |
|---|---|---|---|----------------------------------|--------|--------------|------------|------------------------|---|-------------------|--------------------------------------|--------------|
| | | Common Stock \$.001 Par Value Shares | Class B Convertible Common Stock \$.001 Par Value Shares | Additional Paid-in Capital | | | | | | | | |
| | | (In thousands) | | | | | | | | | | |
| 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 | \$42,6 | |
| Net (loss) earnings for the six months ended June 30, 2014 | (3,261) | — | — | — | — | — | 17,889 | — | — | 17,889 | — | |
| Other comprehensive (loss) income, net of tax | (299) | — | — | — | — | — | — | 3,140 | — | 3,140 | 99 | |
| Non-cash compensation expense | — | — | — | — | — | 25,979 | — | — | — | 25,979 | 186 | |
| Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes | — | — | 412 | — | — | (182,702) | — | — | 168,967 | (13,735) | — | |
| Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other | — | — | — | — | — | 25,487 | — | — | — | 25,487 | — | |
| Dividends | — | — | — | — | — | (39,556) | — | — | — | (39,556) | — | |
| Purchase of redeemable noncontrolling interests | (38,893) | — | — | — | — | — | — | — | — | — | — | |

| | | | | | | | | | | | |
|--|----------|-------|---------|------|--------|--------------|------------|------------|---------------|-------------|-----------------|
| Purchase of noncontrolling interests | — | — | — | — | — | — | — | — | — | — | (50,3 |
| Adjustment of redeemable noncontrolling interests and noncontrolling interests to fair value | 23,716 | — | — | — | — | (33,012 |) | — | — | — | (33,012) 9,296 |
| Other | 13 | — | — | — | — | — | — | — | — | — | — |
| Balance as of June 30, 2014 | \$24,137 | \$251 | 251,394 | \$16 | 16,157 | \$11,358,763 | \$(14,846) | \$(9,906) | \$(9,661,350) | \$1,672,928 | \$1,89 |

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

IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

| | Six Months Ended June 30, | |
|--|---------------------------|------------|
| | 2014 | 2013 |
| | (In thousands) | |
| Cash flows from operating activities attributable to continuing operations: | | |
| Net earnings | \$ 14,628 | \$ 109,237 |
| Less: loss from discontinued operations, net of tax | (1,682 |) (2,012 |
| Earnings from continuing operations | 16,310 | 111,249 |
| Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations: | | |
| Non-cash compensation expense | 26,165 | 24,483 |
| Depreciation | 30,075 | 31,052 |
| Amortization of intangibles | 25,385 | 32,215 |
| Impairment of long-term investments | 64,281 | — |
| Excess tax benefits from stock-based awards | (32,889 |) (23,547 |
| Deferred income taxes | 5,849 | (6,737 |
| Equity in losses of unconsolidated affiliates | 8,785 | 1,169 |
| Acquisition-related contingent consideration fair value adjustments | 500 | 5,707 |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (5,718 |) (9,754 |
| Other assets | (19,238 |) (14,789 |
| Accounts payable and other current liabilities | (31,242 |) 23,438 |
| Income taxes payable | 29,299 | 45,529 |
| Deferred revenue | 25,851 | (203 |
| Other, net | 5,358 | 8,451 |
| Net cash provided by operating activities attributable to continuing operations | 148,771 | 228,263 |
| Cash flows from investing activities attributable to continuing operations: | | |
| Acquisitions, net of cash acquired | (103,637 |) (36,913 |
| Capital expenditures | (26,557 |) (47,819 |
| Proceeds from maturities and sales of marketable debt securities | 998 | 12,502 |
| Purchases of marketable debt securities | (78,380 |) — |
| Proceeds from sales of long-term investments | 2,803 | 310 |
| Purchases of long-term investments | (14,701 |) (25,259 |
| Other, net | (616 |) (1,443 |
| Net cash used in investing activities attributable to continuing operations | (220,090 |) (98,622 |
| Cash flows from financing activities attributable to continuing operations: | | |
| Principal payments on long-term debt | — | (15,844 |
| Purchase of treasury stock | — | (162,660 |
| Dividends | (40,086 |) (38,880 |
| Issuance of common stock, net of withholding taxes | (13,823 |) (868 |
| Excess tax benefits from stock-based awards | 32,889 | 23,547 |
| Purchase of noncontrolling interest | (30,000 |) — |
| Funds returned from escrow for Meetic tender offer | 12,354 | — |
| Acquisition-related contingent consideration payment | (7,373 |) — |
| Other, net | (141 |) (3,634 |
| Net cash used in financing activities attributable to continuing operations | (46,180 |) (198,339 |
| Total cash used in continuing operations | (117,499 |) (68,698 |

Edgar Filing: IAC/INTERACTIVECORP - Form 10-Q

| | | | |
|--|-----------|-----------|---|
| Total cash (used in) provided by discontinued operations | (157 |) 2,335 | |
| Effect of exchange rate changes on cash and cash equivalents | 4,538 | (4,889 |) |
| Net decrease in cash and cash equivalents | (113,118 |) (71,252 |) |
| Cash and cash equivalents at beginning of period | 1,100,444 | 749,977 | |
| Cash and cash equivalents at end of period | \$987,326 | \$678,725 | |

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

7

IAC/INTERACTIVECORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

IAC is a leading media and Internet company comprised of more than 150 brands and products, including Ask.com, About.com, Match.com, HomeAdvisor 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.

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.

Non-GAAP Measure

In addition, the Company introduced Adjusted EBITDA, a new non-GAAP financial measure, beginning with the first quarter of 2014. 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 8 to the consolidated financial statements for the reconciliation of Adjusted EBITDA to operating income (loss) by reportable segment.

Basis of Presentation

The consolidated financial statements include the accounts of the Company, all entities that are wholly-owned by the Company and all entities in which the Company has a controlling financial interest. Intercompany transactions and accounts have been eliminated. Investments in 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 and are included in "Long-term investments" in the accompanying consolidated balance sheet.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2013 included in our Current Report on Form 8-K dated July 2, 2014.

IAC/INTERACTIVECORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Accounting Estimates

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

Certain Risks and Concentrations

A substantial portion of the Company's revenue is derived from online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or changes in advertising spending behavior or in customer buying behavior could adversely affect our operating results. Most of the Company's online advertising revenue is attributable to a services agreement with Google Inc. ("Google"), which expires on March 31, 2016. Our services agreement requires that we comply with certain guidelines promulgated by Google. Subject to certain limitations, Google may unilaterally update its policies and guidelines, which could require modifications to, or prohibit and/or render obsolete certain of our products, services and/or business practices, which could be costly to address or otherwise have an adverse effect on our business, financial condition and results of operations. For the three and six months ended June 30, 2014, revenue earned from Google is \$349.5 million and \$704.6 million, respectively. For the three and six months ended June 30, 2013, revenue earned from Google is \$405.8 million and \$781.9 million, respectively. This revenue is earned by the businesses comprising the Search & Applications segment. Accounts receivable related to revenue earned from Google totaled \$114.5 million and \$112.3 million at June 30, 2014 and December 31, 2013, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which clarifies the principles for recognizing revenue and develops a common standard for all industries. The new guidance is effective for reporting periods beginning after December 15, 2016. Entities have the option of using either a full retrospective or cumulative effect approach to adopt ASU No. 2014-09. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its consolidated financial statements or the method of adoption.

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The Company will adopt the new guidance effective January 1, 2015. The adoption of ASU No. 2014-08 will not have a material effect on the Company's consolidated financial statements.

NOTE 2—INCOME TAXES

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

deferred tax asset in future years or income tax contingencies is recognized in the interim period in which the change occurs.

The computation of the annual expected effective income tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected pre-tax income (or loss) for the year, projections of the proportion of income (and/or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of the

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

realizability of deferred tax assets generated in the current year. The accounting estimates used to compute the provision or benefit for income taxes may change as new events occur, more experience is acquired, additional information is obtained or our tax environment changes. To the extent that the expected annual effective income tax rate changes during a quarter, the effect of the change on prior quarters is included in income tax provision in the quarter in which the change occurs.

For the three and six months ended June 30, 2014, the Company recorded an income tax provision for continuing operations of \$29.9 million and \$51.3 million, respectively, which represents effective income tax rates of 251% and 76%, respectively. The effective rates for the three and six months ended June 30, 2014 are higher than the statutory rate of 35% due primarily to the largely unbenefited loss associated with the write-downs of certain of the Company's investments, interest on reserves for income tax contingencies, and state taxes, partially offset by foreign income taxed at lower rates. For the three and six months ended June 30, 2013, the Company recorded an income tax provision for continuing operations of \$39.4 million and \$65.2 million, respectively, which represents effective income tax rates of 40% and 37%, respectively. The effective rates for the three and six months ended June 30, 2013 are higher than the statutory rate of 35% due primarily to state taxes and interest on reserves for income tax contingencies, partially offset by foreign income taxed at lower rates.

The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in the income tax provision. Included in the income tax provision for continuing operations and discontinued operations for the three months ended June 30, 2014 is a \$1.5 million and a \$0.8 million expense, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. Included in the income tax provision for continuing operations and discontinued operations for the six months ended June 30, 2014 is a \$3.1 million and a \$1.6 million expense, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. At June 30, 2014 and December 31, 2013, the Company has accrued \$140.7 million and \$133.0 million, respectively, for the payment of interest. At June 30, 2014 and December 31, 2013, the Company has accrued \$5.3 million and \$5.1 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. In June 2014, the Internal Revenue Service notified the Company that it will audit the Company's tax returns for the years ended December 31, 2010 through 2012. Various other 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 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.

At June 30, 2014 and December 31, 2013, unrecognized tax benefits, including interest, are \$412.0 million and \$408.8 million, respectively. Of the total unrecognized tax benefits at June 30, 2014, \$409.5 million is included in "Income taxes payable," \$2.1 million relates to deferred tax assets included in "Deferred income taxes" and \$0.3 million is included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheet. Included in unrecognized tax benefits at June 30, 2014 is \$39.9 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.

The statute of limitations for federal income taxes for the years 2001 through 2009 expired on July 1, 2014. As a result, previously unrecognized tax benefits, including interest, totaling \$374.8 million will be recognized in the third quarter of 2014. The income tax benefit to continuing operations and discontinued operations will be \$88.3 million and \$175.7 million, respectively. The remaining amount of \$110.8 million will affect various balance sheet accounts, primarily non-current deferred tax assets, which will be reduced by \$100.0 million. If the remaining balance of unrecognized tax benefits at June 30, 2014 is subsequently recognized, \$32.5 million, net of related deferred tax assets

and interest, would reduce income tax provision for continuing operations. Excluding the amounts related to the 2001-2009 period described above, the Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by an additional \$11.6 million within twelve months of the current reporting date, of which approximately \$8.3 million would decrease income tax provision for continuing operations, primarily due to expirations of statutes of limitations.

NOTE 3—MARKETABLE SECURITIES

At June 30, 2014, current available-for-sale marketable securities are as follows:

10

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-----------------------------|-------------------|------------------------------|-------------------------------|---------------|
| | (In thousands) | | | |
| Corporate debt securities | \$78,599 | \$41 | \$(59) |) \$78,581 |
| Total debt securities | 78,599 | 41 | (59) |) 78,581 |
| Equity security | 149 | 2,881 | — | 3,030 |
| Total marketable securities | \$78,748 | \$2,922 | \$(59) |) \$81,611 |

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | 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 net unrealized gains in the tables above are included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet.

The contractual maturities of debt securities classified as current available-for-sale at June 30, 2014 are as follows:

| | Amortized Cost | Fair Value |
|---------------------------------------|-------------------|---------------|
| | (In thousands) | |
| Due in one year or less | \$10,632 | \$10,642 |
| Due after one year through five years | 67,967 | 67,939 |
| Total | \$78,599 | \$78,581 |

The following table summarizes investments in current available-for-sale marketable debt securities (22 in total at June 30, 2014) that have been in a continuous unrealized loss position for less than twelve months:

| | June 30, 2014 | | December 31, 2013 | |
|---------------------------|----------------|-------------------------------|-------------------|-------------------------------|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (In thousands) | | | |
| Corporate debt securities | \$51,621 | \$(59) | \$— | \$— |
| Total | \$51,621 | \$(59) | \$— | \$— |

At June 30, 2014 and December 31, 2013, there are no investments in current available-for-sale marketable securities that have been in a continuous unrealized loss position for twelve months or longer.

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

All of the Company's marketable debt securities are rated investment grade. The gross unrealized losses on the marketable debt securities relate principally to changes in interest rates. Because the Company does not intend to sell any marketable debt securities and it is not more likely than not that the Company will be required to sell any marketable debt securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider any of its marketable debt securities to be other-than-temporarily impaired at June 30, 2014.

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:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|------|---------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands) | | | |
| Proceeds from maturities and sales of available-for-sale marketable securities | \$3,462 | \$2 | \$3,462 | \$12,502 |
| Gross realized gains | 2,299 | — | 2,299 | — |

There were no realized losses from the maturities and sales of available-for-sale marketable securities for the three and six months ended June 30, 2014 and 2013. Gross realized gains from the maturities and sales of available-for-sale marketable securities are included in "Other (expense) income, net" in the accompanying consolidated statement of operations.

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

NOTE 4—FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

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

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

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

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

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

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

| | June 30, 2014 | | | |
|---------------------------------------|----------------|-------------|--------------|--------------|
| | Quoted Market | | | Total |
| | Prices in | Significant | Significant | Fair Value |
| | Active | Other | Unobservable | Measurements |
| | Markets for | Observable | Inputs | |
| | Identical | Inputs | (Level 3) | |
| | Assets | (Level 2) | | |
| | (Level 1) | | | |
| | (In thousands) | | | |
| Assets: | | | | |
| Cash equivalents: | | | | |
| Money market funds | \$350,637 | \$— | \$— | \$350,637 |
| Commercial paper | — | 246,620 | — | 246,620 |
| Time deposits | — | 59,006 | — | 59,006 |
| Marketable securities: | | | | |
| Corporate debt securities | — | 78,581 | — | 78,581 |
| Equity security | 3,030 | — | — | 3,030 |
| Long-term investments: | | | | |
| Auction rate security | — | — | 9,250 | 9,250 |
| Marketable equity security | 9,516 | — | — | 9,516 |
| Total | \$363,183 | \$384,207 | \$9,250 | \$756,640 |
| Liabilities: | | | | |
| Contingent consideration arrangements | \$— | \$— | \$(41,397) | \$(41,397) |
| December 31, 2013 | | | | |
| | Quoted Market | | | Total |
| | Prices in | Significant | Significant | Fair Value |
| | Active | Other | Unobservable | Measurements |
| | Markets for | Observable | Inputs | |
| | Identical | Inputs | (Level 3) | |
| | Assets | (Level 2) | | |
| | (Level 1) | | | |
| | (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 arrangements | \$— | \$— | \$(45,828 |) \$(45,828 |) |
|---------------------------------------|-----|-----|-----------|-------------|---|

13

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

| | Three Months Ended June 30, 2014 | | 2013 | |
|---|-------------------------------------|---|--------------------------|---|
| | Auction Rate Security | Contingent Consideration Arrangements | Auction Rate Security | Contingent Consideration Arrangements |
| | (In thousands) | | | |
| Balance at April 1 | \$9,150 | \$(48,758) | \$8,580 | \$(44,577) |
| Total net gains (losses): | | | | |
| Included in earnings (unrealized) | — | (527) | — | (4,249) |
| Included in other comprehensive income (loss) | 100 | 499 | 180 | (368) |
| Settlements | — | 7,389 | — | 12 |
| Balance at June 30 | \$9,250 | \$(41,397) | \$8,760 | \$(49,182) |
| | Six Months Ended June 30, 2014 | | 2013 | |
| | Auction Rate Security | Contingent Consideration Arrangements | Auction Rate Security | Contingent Consideration Arrangements |
| | (In thousands) | | | |
| Balance at January 1 | \$8,920 | \$(45,828) | \$8,100 | \$(1,909) |
| Total net gains (losses): | | | | |
| Included in earnings (unrealized) | — | (500) | — | (5,707) |
| Included in other comprehensive income (loss) | 330 | 136 | 660 | (368) |
| Fair value at date of acquisition | — | (2,835) | — | (41,387) |
| Settlements | — | 7,630 | — | 189 |
| Balance at June 30 | \$9,250 | \$(41,397) | \$8,760 | \$(49,182) |

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 \$0.8 million and \$1.1 million at June 30, 2014 and December 31, 2013, respectively. The unrealized losses are included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet. At June 30, 2014, the auction rate security is rated A-/WR and matures in 2035. The Company does not consider the auction rate security to be other-than-temporarily impaired at June 30, 2014, 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 Arrangements

As of June 30, 2014, there are six contingent consideration arrangements related to recent business acquisitions. Five of the contingent consideration arrangements have limits as to the maximum amount that can be paid; the maximum contingent payments related to these arrangements is \$158.9 million and the fair value of these five arrangements at June 30, 2014 is \$40.0 million. The fair value of the one contingent consideration arrangement without a limit on the maximum amount is \$1.4 million at June 30, 2014. The contingent consideration arrangements are generally based upon earnings performance and/or operating metrics. The Company primarily uses probability-weighted analyses to determine the amount of the gross liability, and, to the extent the arrangement is long-term in nature, applies a discount rate, which captures the risks associated with the

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

obligation. The amount of scenarios in the probability-weighted analyses can vary; generally, more scenarios are prepared for longer duration and more complex arrangements.

The most significant contingent consideration arrangement relates to the January 2013 acquisition of Massive Media, NV, which operates Twoo.com. The Twoo.com contingent consideration arrangement is payable in three annual installments beginning in 2014. The 2014, 2015 and 2016 payments are based upon 2013 EBITDA, 2014 EBITDA and monthly active users of Twoo.com at December 31, 2014 and 2015 EBITDA and monthly active users of Twoo.com at December 31, 2015, respectively. The 2014 installment in the amount of \$7.4 million was paid in the second quarter of 2014. The remaining aggregate amount of the 2015 and 2016 installment payments cannot exceed €77.9 million (\$105.9 million at June 30, 2014). The estimate of the fair value for the Twoo.com 2015 and 2016 installment payments is based upon the Company's multi-scenario forecasts of Twoo.com's EBITDA for 2014 and 2015 and the number of users at December 31, 2014 and December 31, 2015, and the Company's estimate of the probability of each scenario occurring. These multi-scenario forecasts and related probability assessments were based primarily on management's internal projections and strategic plans. The fair value of this arrangement is determined using a discount rate of 15%.

The fair value of the contingent consideration arrangements is sensitive to changes in the forecasts of earnings and/or the relevant operating metrics and changes in discount rates. The Company remeasures the fair value of the contingent consideration arrangements 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 June 30, 2014 includes a current portion of \$10.4 million and non-current portion of \$31.0 million, which are included in "Accrued expenses and other current liabilities" and "Other long-term liabilities," respectively, in the accompanying consolidated balance sheet.

Assets measured at fair value on a nonrecurring basis

The Company's non-financial assets, such as goodwill, intangible assets and property and equipment, as well as equity and cost method investments, are adjusted to fair value only when an impairment charge is recognized. Such fair value measurements are based predominantly on Level 3 inputs.

Cost method investments

At June 30, 2014 and December 31, 2013, the carrying values of the Company's investments accounted for under the cost method totaled \$85.7 million and \$137.3 million, respectively, and are included in "Long-term investments" in the accompanying consolidated balance sheet. The Company evaluates each cost 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. 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.

In the second quarter of 2014, the Company recorded \$64.2 million of other-than-temporary impairment charges for certain cost method investments as a result of our assessment of the near-term prospects and financial condition of the investees. This charge is included in "Other (expense) income, net" in the accompanying consolidated statement of operations.

Equity method investments

In the second quarter of 2014, the Company recorded a \$4.2 million other-than-temporary impairment charge on an equity method investment following the sale of a majority of the investee's assets. This charge is included in "Equity in losses of unconsolidated affiliates" in the accompanying consolidated statement of operations.

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

Financial instruments measured at fair value only for disclosure purposes

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

| June 30, 2014 | | December 31, 2013 | |
|----------------|------------|-------------------|------------|
| Carrying Value | Fair Value | Carrying Value | Fair Value |

(In thousands)

Liabilities:

Long-term debt \$(1,080,000) \$(1,109,517) \$(1,080,000) \$(1,058,396)

The fair value of long-term debt 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 5—LONG-TERM DEBT

The balance of long-term debt is comprised of:

| | June 30, 2014 (In thousands) | December 31, 2013 |
|--|------------------------------------|----------------------|
| 4.875% Senior Notes due November 30, 2018 (the "2013 Senior Notes"); interest payable each May 30 and November 30, which commenced May 30, 2014 | \$500,000 | \$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; interest payable each March 1 and September 1, which commenced March 1, 2006 | 80,000 | 80,000 |
| Total long-term debt | \$1,080,000 | \$1,080,000 |

The 2013 and 2012 Senior Notes were issued on November 15, 2013 and December 21, 2012, respectively. 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 June 30, 2014 and December 31, 2013, there are no outstanding borrowings under the revolving credit facility.

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 and IAC's obligation under the revolving credit; IAC's obligation under the revolving credit is also secured by the stock of certain of our domestic and foreign subsidiaries. See Note 10 for guarantor and non-guarantor financial information. The indentures governing the 2013 and 2012 Senior Notes restrict our ability to incur additional indebtedness in the event we are not in compliance with the maximum leverage ratio of 3.0 to 1.0. In addition, the terms of the revolving credit facility require that we maintain a leverage ratio of not more than 3.0 to 1.0 and restrict our ability to incur additional indebtedness. As of June 30, 2014, the Company was in compliance with all of these covenants.

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

NOTE 6—ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| | Three Months Ended June 30, 2014 | | |
|---|--|---|--|
| | Foreign Currency Translation Adjustment (In thousands) | Unrealized Gains (Losses) On Available-For-Sale Securities | Accumulated Other Comprehensive Loss |
| Balance as of April 1 | \$(15,132) | \$ 7,435 | \$ (7,697) |
| Other comprehensive loss before reclassifications, net of tax benefit of \$0.1 million related to unrealized losses on available-for-sale securities | (150) | (799) | (949) |
| Amounts reclassified from accumulated other comprehensive loss, net of tax benefit of \$0.8 million related to unrealized losses on available-for-sale securities | — | (1,260) | (1,260) |
| Net current period other comprehensive loss | (150) | (2,059) | (2,209) |
| Balance as of June 30 | \$(15,282) | \$ 5,376 | \$ (9,906) |
| | Three Months Ended June 30, 2013 | | |
| | Foreign Currency Translation Adjustment (In thousands) | Unrealized (Losses) Gains On Available-For-Sale Securities | Accumulated Other Comprehensive (Loss) Income |
| Balance as of April 1 | \$(32,024) | \$ (12,072) | \$ (44,096) |
| Other comprehensive (loss) income before reclassifications, net of tax benefit of \$0.7 million related to unrealized gains on available-for-sale securities | (5,278) | 17,187 | 11,909 |
| Amounts reclassified from accumulated other comprehensive loss | — | — | — |
| Net current period other comprehensive (loss) income | (5,278) | 17,187 | 11,909 |
| Balance as of June 30 | \$(37,302) | \$ 5,115 | \$ (32,187) |
| | Six Months Ended June 30, 2014 | | |
| | Foreign Currency Translation Adjustment (In thousands) | Unrealized Gains (Losses) On Available-For-Sale Securities | Accumulated Other Comprehensive Loss |
| Balance as of January 1 | \$(20,352) | \$ 7,306 | \$ (13,046) |
| Other comprehensive income (loss) before reclassifications, net of tax benefit of \$0.7 million related to unrealized losses on available-for-sale securities | 5,070 | (670) | 4,400 |
| Amounts reclassified from accumulated other comprehensive loss, net of tax benefit of \$0.8 million related to unrealized losses on available-for-sale securities | — | (1,260) | (1,260) |
| Net current period other comprehensive income (loss) | 5,070 | (1,930) | 3,140 |
| Balance as of June 30 | \$(15,282) | \$ 5,376 | \$ (9,906) |

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

| | Six Months Ended June 30, 2013 | | |
|---|--|---|---|
| | Foreign Currency Translation Adjustment (In thousands) | Unrealized (Losses) Gains On Available-For-Sale Securities | Accumulated Other Comprehensive Loss |
| Balance as of January 1 | \$ (25,073) | \$ (7,096) | \$ (32,169) |
| Other comprehensive (loss) income before reclassifications, net of tax provision of \$0.1 million related to unrealized losses on available-for-sale securities | (12,229) | 12,212 | (17) |
| Amounts reclassified from accumulated other comprehensive loss | — | (1) | (1) |
| Net current period other comprehensive (loss) income | (12,229) | 12,211 | (18) |
| Balance as of June 30 | \$ (37,302) | \$ 5,115 | \$ (32,187) |

Unrealized gains and losses, net of tax, reclassified out of accumulated other comprehensive loss related to the maturities and sales of available-for-sale securities are included in "Other (expense) income, net" in the accompanying consolidated statement of operations.

NOTE 7—(LOSS) EARNINGS PER SHARE

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

| | Three Months Ended June 30, | | | |
|---|-----------------------------|--------------|-----------|-----------|
| | 2014 | | 2013 | |
| | Basic | Diluted | Basic | Diluted |
| (In thousands, except per share data) | | | | |
| Numerator: | | | | |
| (Loss) earnings from continuing operations | \$ (17,995) | \$ (17,995) | \$ 58,540 | \$ 58,540 |
| Net loss attributable to noncontrolling interests | 867 | 867 | 818 | 818 |
| (Loss) earnings from continuing operations attributable to IAC shareholders | (17,128) | (17,128) | 59,358 | 59,358 |
| Loss from discontinued operations attributable to IAC shareholders | (868) | (868) | (1,068) | (1,068) |
| Net (loss) earnings attributable to IAC shareholders | \$ (17,996) | \$ (17,996) | \$ 58,290 | \$ 58,290 |
| Denominator: | | | | |
| Weighted average basic shares outstanding | 83,178 | 83,178 | 83,609 | 83,609 |
| Dilutive securities including stock options and RSUs ^(a) | — | — | — | 2,954 |
| Denominator for earnings per share—weighted average shares | 83,178 | 83,178 | 83,609 | 86,563 |
| (Loss) earnings per share attributable to IAC shareholders: | | | | |
| (Loss) earnings per share from continuing operations | \$ (0.21) | \$ (0.21) | \$ 0.71 | \$ 0.69 |
| Discontinued operations | (0.01) | (0.01) | (0.01) | (0.02) |
| (Loss) earnings per share | \$ (0.22) | \$ (0.22) | \$ 0.70 | \$ 0.67 |

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

| | Six Months Ended June 30, | | | |
|---|---------------------------------------|----------|-----------|-----------|
| | 2014 | | 2013 | |
| | Basic | Diluted | Basic | Diluted |
| | (In thousands, except per share data) | | | |
| Numerator: | | | | |
| Earnings from continuing operations | \$16,310 | \$16,310 | \$111,249 | \$111,249 |
| Net loss attributable to noncontrolling interests | 3,261 | 3,261 | 2,690 | 2,690 |
| Earnings from continuing operations attributable to IAC shareholders | 19,571 | 19,571 | 113,939 | 113,939 |
| Loss from discontinued operations attributable to IAC shareholders | (1,682) | (1,682) | (2,012) | (2,012) |
| Net earnings attributable to IAC shareholders | \$17,889 | \$17,889 | \$111,927 | \$111,927 |
| Denominator: | | | | |
| Weighted average basic shares outstanding | 82,833 | 82,833 | 83,912 | 83,912 |
| Dilutive securities including stock options and RSUs ^(b) | — | 5,150 | — | 3,058 |
| Denominator for earnings per share—weighted average shares ^(b) | 82,833 | 87,983 | 83,912 | 86,970 |
| Earnings (loss) per share attributable to IAC shareholders: | | | | |
| Earnings per share from continuing operations | \$0.24 | \$0.22 | \$1.36 | \$1.31 |
| Discontinued operations | (0.02) | (0.02) | (0.03) | (0.02) |
| Earnings per share | \$0.22 | \$0.20 | \$1.33 | \$1.29 |

(a) For the three months ended June 30, 2014, the Company has a loss from continuing operations and as a result, approximately 11.5 million shares related to potentially dilutive securities were excluded for computing diluted earnings per share because the impact would have been anti-dilutive. Accordingly, the weighted average basic shares outstanding were used to compute all earnings per share amounts.

(b) 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 vesting of restricted stock units ("RSUs"). For the six months ended June 30, 2014, there are no shares excluded from the calculation of diluted earnings per share. For the three and six months ended June 30, 2013, approximately 0.7 million and 3.8 million shares, respectively, related to potentially dilutive securities are excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

NOTE 8—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.

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-----------|---------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands) | | | |
| Revenue: | | | | |
| Search & Applications | \$395,716 | \$427,449 | \$793,751 | \$824,641 |
| The Match Group | 214,314 | 197,987 | 425,501 | 390,862 |
| Media | 36,656 | 57,495 | 73,011 | 102,490 |
| eCommerce | 109,949 | 116,591 | 204,791 | 223,888 |
| Inter-segment elimination | (320) | (111) | (492) | (221) |
| Total | \$756,315 | \$799,411 | \$1,496,562 | \$1,541,660 |
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands) | | | |
| Operating Income (Loss): | | | | |
| Search & Applications | \$77,771 | \$89,346 | \$148,108 | \$176,329 |
| The Match Group | 61,198 | 53,129 | 101,001 | 90,488 |
| Media | (9,794) | (2,033) | (18,360) | (9,190) |
| eCommerce | 8 | (4,603) | (1,553) | (9,096) |
| Corporate | (33,493) | (29,143) | (61,794) | (57,284) |
| Total | \$95,690 | \$106,696 | \$167,402 | \$191,247 |
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands) | | | |
| Adjusted EBITDA: | | | | |
| Search & Applications | \$91,258 | \$102,420 | \$173,329 | \$199,934 |
| The Match Group | 69,368 | 67,685 | 116,798 | 115,591 |
| Media | (8,911) | (1,003) | (16,775) | (7,183) |
| eCommerce | 4,523 | 4,467 | 7,327 | 5,190 |
| Corporate | (14,806) | (15,631) | (31,152) | (28,828) |
| Total | \$141,432 | \$157,938 | \$249,527 | \$284,704 |
| Revenue by geography is based on where the customer is located. Geographic information about revenue and long-lived assets is presented below: | | | | |
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands) | | | |
| Revenue: | | | | |
| United States | \$511,862 | \$551,880 | \$1,016,265 | \$1,066,494 |
| All other countries | 244,453 | 247,531 | 480,297 | 475,166 |
| Total | \$756,315 | \$799,411 | \$1,496,562 | \$1,541,660 |

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

| | June 30, 2014 | December 31, 2013 |
|---|------------------|----------------------|
| | (In thousands) | |
| Long-lived assets (excluding goodwill and intangible assets): | | |
| United States | \$269,746 | \$271,916 |
| All other countries | 21,543 | 22,048 |
| Total | \$291,289 | \$293,964 |

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.

The following tables reconcile Adjusted EBITDA to operating income (loss) for the Company's reportable segments:
Three Months Ended June 30, 2014

| | Adjusted EBITDA | Non-Cash Compensation Expense | Depreciation of Intangibles | Amortization of Intangibles | Acquisition-related Contingent Consideration Fair Value Adjustments | Operating Income (Loss) |
|-----------------------|--------------------|-------------------------------------|-----------------------------------|-----------------------------------|---|-------------------------------|
| | (In thousands) | | | | | |
| Search & Applications | \$91,258 | \$ — | \$(5,082) | \$(8,405) | \$ — | \$77,771 |
| The Match Group | 69,368 | (170) | (5,589) | (1,684) | (727) | 61,198 |
| Media | (8,911) | (161) | (224) | (698) | 200 | (9,794) |
| eCommerce | 4,523 | — | (1,896) | (2,619) | — | 8 |
| Corporate | (14,806) | (16,221) | (2,466) | — | — | (33,493) |
| Total | \$141,432 | \$(16,552) | \$(15,257) | \$(13,406) | \$(527) | \$95,690 |

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Three Months Ended June 30, 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 | \$ 102,420 | \$ — | \$(6,413) | \$(6,661) | \$ — | \$ 89,346 |
| The Match Group | 67,685 | (363) | (4,838) | (5,106) | (4,249) | 53,129 |
| Media | (1,003) | (213) | (524) | (293) | — | (2,033) |
| eCommerce | 4,467 | — | (2,993) | (6,077) | — | (4,603) |
| Corporate | (15,631) | (11,244) | (2,268) | — | — | (29,143) |
| Total | \$ 157,938 | \$ (11,820) | \$(17,036) | \$(18,137) | \$ (4,249) | \$ 106,696 |

Six Months Ended June 30, 2014

| | Adjusted EBITDA | Non-Cash Compensation Expense | Depreciation | Amortization of Intangibles | Acquisition-related Contingent Consideration Fair Value Adjustments | Operating Income (Loss) |
|-----------------------|-----------------|-------------------------------|--------------|-----------------------------|---|-------------------------|
| (In thousands) | | | | | | |
| Search & Applications | \$ 173,329 | \$ — | \$(9,547) | \$(15,674) | \$ — | \$ 148,108 |
| The Match Group | 116,798 | (187) | (11,389) | (3,521) | (700) | 101,001 |
| Media | (16,775) | (325) | (506) | (954) | 200 | (18,360) |
| eCommerce | 7,327 | — | (3,644) | (5,236) | — | (1,553) |
| Corporate | (31,152) | (25,653) | (4,989) | — | — | (61,794) |
| Total | \$ 249,527 | \$ (26,165) | \$(30,075) | \$(25,385) | \$ (500) | \$ 167,402 |

Six Months Ended June 30, 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 | \$ 199,934 | \$ (3) | \$(10,278) | \$(13,324) | \$ — | \$ 176,329 |
| The Match Group | 115,591 | (206) | (9,544) | (9,646) | (5,707) | 90,488 |
| Media | (7,183) | (418) | (1,047) | (542) | — | (9,190) |
| eCommerce | 5,190 | 29 | (5,612) | (8,703) | — | (9,096) |
| Corporate | (28,828) | (23,885) | (4,571) | — | — | (57,284) |
| Total | \$ 284,704 | \$ (24,483) | \$(31,052) | \$(32,215) | \$ (5,707) | \$ 191,247 |

NOTE 9—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

IAC/INTERACTIVECORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

of operations, or financial condition of the Company, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. The Company also evaluates other contingent matters, including income and non-income tax contingencies, to assess the likelihood of an unfavorable outcome and estimated extent of potential loss. It is possible that an unfavorable outcome of one or more of these lawsuits or other contingencies could have a material impact on the liquidity, results of operations, or financial condition of the Company. See Note 2 for additional information related to income tax contingencies.

NOTE 10—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 June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013 for: IAC, on a stand-alone basis; the combined guarantor subsidiaries of IAC; the combined non-guarantor subsidiaries of IAC; and IAC on a consolidated basis.

Balance sheet at June 30, 2014:

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|--|----------------|---------------------------|-------------------------------|-----------------------|---------------------|
| | (In thousands) | | | | |
| Cash and cash equivalents | \$732,792 | \$— | \$ 254,534 | \$— | \$987,326 |
| Marketable securities | 78,581 | — | 3,030 | — | 81,611 |
| Accounts receivable, net | 10 | 142,486 | 80,940 | — | 223,436 |
| Other current assets | 40,425 | 88,193 | 60,904 | (4,463) | 185,059 |
| Intercompany receivables | — | 620,647 | 888,364 | (1,509,011) | — |
| Property and equipment, net | 6,229 | 219,466 | 65,594 | — | 291,289 |
| Goodwill | — | 1,212,699 | 507,951 | — | 1,720,650 |
| Intangible assets, net | — | 308,170 | 162,191 | — | 470,361 |
| Investment in subsidiaries | 3,904,440 | 822,242 | — | (4,726,682) | — |
| Other non-current assets | 70,343 | 26,184 | 119,709 | (8,490) | 207,746 |
| Total assets | \$4,832,820 | \$3,440,087 | \$ 2,143,217 | \$(6,248,646) | \$4,167,478 |
| Accounts payable, trade | \$3,712 | \$23,852 | \$ 31,005 | \$— | \$58,569 |
| Other current liabilities | 32,195 | 292,415 | 204,551 | — | 529,161 |
| Long-term debt | 1,000,000 | 80,000 | — | — | 1,080,000 |
| Income taxes payable | 386,753 | 7,785 | 25,870 | — | 420,408 |
| Intercompany liabilities | 1,509,011 | — | — | (1,509,011) | — |
| Other long-term liabilities | 228,221 | 98,506 | 66,602 | (12,953) | 380,376 |
| Redeemable noncontrolling interests | — | — | 24,137 | — | 24,137 |
| IAC shareholders' equity | 1,672,928 | 2,937,529 | 1,789,153 | (4,726,682) | 1,672,928 |
| Noncontrolling interests | — | — | 1,899 | — | 1,899 |
| Total liabilities and shareholders' equity | \$4,832,820 | \$3,440,087 | \$ 2,143,217 | \$(6,248,646) | \$4,167,478 |

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

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 | 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 |

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

Statement of operations for the three months ended June 30, 2014:

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|--|----------------|---------------------------|-------------------------------|-----------------------|---------------------|
| | (In thousands) | | | | |
| Revenue | \$— | \$556,162 | \$203,497 | \$(3,344) |) \$756,315 |
| Operating costs and expenses: | | | | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 383 | 124,935 | 86,469 | (687) |) 211,100 |
| Selling and marketing expense | 619 | 219,959 | 54,647 | (2,439) |) 272,786 |
| General and administrative expense | 26,609 | 49,415 | 33,682 | 13 |) 109,719 |
| Product development expense | 1,705 | 26,769 | 10,114 | (231) |) 38,357 |
| Depreciation | 312 | 9,224 | 5,721 | — |) 15,257 |
| Amortization of intangibles | — | 9,659 | 3,747 | — |) 13,406 |
| Total operating costs and expenses | 29,628 | 439,961 | 194,380 | (3,344) |) 660,625 |
| Operating (loss) income | (29,628) |) 116,201 | 9,117 | — |) 95,690 |
| Equity in earnings (losses) of unconsolidated affiliates | 5,112 | 1,535 | 64 | (13,561) |) (6,850) |
| Interest expense | (12,985) |) (1,052) |) (9) |) — |) (14,046) |
| Other income (expense), net | 9,689 | (10,072) |) (62,517) |) — |) (62,900) |
| (Loss) earnings from continuing operations before income taxes | (27,812) |) 106,612 | (53,345) |) (13,561) |) 11,894 |
| Income tax benefit (provision) | 10,684 | (39,785) |) (788) |) — |) (29,889) |
| (Loss) earnings from continuing operations | (17,128) |) 66,827 | (54,133) |) (13,561) |) (17,995) |
| Loss from discontinued operations, net of tax | (868) |) — | (27) |) 27 |) (868) |
| Net (loss) earnings | (17,996) |) 66,827 | (54,160) |) (13,534) |) (18,863) |
| Net (earnings) loss attributable to noncontrolling interests | — | (9) |) 876 | — |) 867 |
| Net (loss) earnings attributable to IAC shareholders | \$(17,996) |) \$66,818 | \$(53,284) |) \$(13,534) |) \$(17,996) |
| Comprehensive (loss) income attributable to IAC shareholders | \$(20,205) |) \$66,154 | \$(55,870) |) \$(10,284) |) \$(20,205) |

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

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

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|--|----------------|---------------------------|-------------------------------|-----------------------|---------------------|
| | (In thousands) | | | | |
| Revenue | \$— | \$576,605 | \$223,965 | \$(1,159) |) \$799,411 |
| Operating costs and expenses: | | | | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 549 | 161,166 | 112,107 | (1,000) |) 272,822 |
| Selling and marketing expense | 710 | 201,025 | 45,570 | (152) |) 247,153 |
| General and administrative expense | 23,582 | 46,993 | 32,947 | (7) |) 103,515 |
| Product development expense | 867 | 24,779 | 8,406 | — |) 34,052 |
| Depreciation | 344 | 12,142 | 4,550 | — |) 17,036 |
| Amortization of intangibles | — | 12,399 | 5,738 | — |) 18,137 |
| Total operating costs and expenses | 26,052 | 458,504 | 209,318 | (1,159) |) 692,715 |
| Operating (loss) income | (26,052) |) 118,101 | 14,647 | — |) 106,696 |
| Equity in earnings (losses) of unconsolidated affiliates | 75,927 | 7,728 | (131) |) (84,602) |) (1,078) |
| Interest expense | (6,515) |) (1,078) |) (65) |) — |) (7,658) |
| Other income (expense), net | 3,109 | (9,331) |) 6,218 | — |) (4) |
| Earnings from continuing operations before income taxes | 46,469 | 115,420 | 20,669 | (84,602) |) 97,956 |
| Income tax benefit (provision) | 12,889 | (41,863) |) (10,442) |) — |) (39,416) |
| Earnings from continuing operations | 59,358 | 73,557 | 10,227 | (84,602) |) 58,540 |
| (Loss) earnings from discontinued operations, net of tax | (1,068) |) — | 4 | (4) |) (1,068) |
| Net earnings | 58,290 | 73,557 | 10,231 | (84,606) |) 57,472 |
| Net loss attributable to noncontrolling interests | — | 404 | 414 | — |) 818 |
| Net earnings attributable to IAC shareholders | \$58,290 | \$73,961 | \$10,645 | \$(84,606) |) \$58,290 |
| Comprehensive income attributable to IAC shareholders | \$70,199 | \$73,897 | \$5,147 | \$(79,044) |) \$70,199 |

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

Statement of operations for the six months ended June 30, 2014:

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|--|----------------|---------------------------|-------------------------------|-----------------------|---------------------|
| | (In thousands) | | | | |
| Revenue | \$— | \$1,102,488 | \$400,404 | \$(6,330) |) \$1,496,562 |
| Operating costs and expenses: | | | | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 355 | 253,096 | 168,490 | (1,647) |) 420,294 |
| Selling and marketing expense | 811 | 456,049 | 118,775 | (4,137) |) 571,498 |
| General and administrative expense | 49,055 | 96,131 | 59,323 | 26 |) 204,535 |
| Product development expense | 3,176 | 54,215 | 20,554 | (572) |) 77,373 |
| Depreciation | 641 | 18,784 | 10,650 | — |) 30,075 |
| Amortization of intangibles | — | 18,660 | 6,725 | — |) 25,385 |
| Total operating costs and expenses | 54,038 | 896,935 | 384,517 | (6,330) |) 1,329,160 |
| Operating (loss) income | (54,038) |) 205,553 | 15,887 | — |) 167,402 |
| Equity in earnings (losses) of unconsolidated affiliates | 59,394 | (114) |) 37 | (68,102) |) (8,785) |
| Interest expense | (25,970) |) (2,094) |) (46) |) — |) (28,110) |
| Other income (expense), net | 19,388 | (18,706) |) (63,605) |) — |) (62,923) |
| (Loss) earnings from continuing operations before income taxes | (1,226) |) 184,639 | (47,727) |) (68,102) |) 67,584 |
| Income tax benefit (provision) | 20,797 | (69,730) |) (2,341) |) — |) (51,274) |
| Earnings (loss) from continuing operations | 19,571 | 114,909 | (50,068) |) (68,102) |) 16,310 |
| Loss from discontinued operations, net of tax | (1,682) |) — | (40) |) 40 |) (1,682) |
| Net earnings (loss) | 17,889 | 114,909 | (50,108) |) (68,062) |) 14,628 |
| Net loss attributable to noncontrolling interests | — | — | 3,261 | — |) 3,261 |
| Net earnings (loss) attributable to IAC shareholders | \$17,889 | \$114,909 | \$(46,847) |) \$(68,062) |) \$17,889 |
| Comprehensive income (loss) attributable to IAC shareholders | \$21,029 | \$114,629 | \$(45,764) |) \$(68,865) |) \$21,029 |

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

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

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|--|----------------|---------------------------|-------------------------------|-----------------------|---------------------|
| | (In thousands) | | | | |
| Revenue | \$— | \$1,113,443 | \$430,413 | \$(2,196) |) \$1,541,660 |
| Operating costs and expenses: | | | | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 1,226 | 319,041 | 210,183 | (1,779) |) 528,671 |
| Selling and marketing expense | 1,141 | 386,941 | 102,394 | (409) |) 490,067 |
| General and administrative expense | 45,827 | 89,849 | 63,571 | (8) |) 199,239 |
| Product development expense | 1,766 | 48,787 | 18,616 | — |) 69,169 |
| Depreciation | 711 | 21,535 | 8,806 | — |) 31,052 |
| Amortization of intangibles | — | 21,449 | 10,766 | — |) 32,215 |
| Total operating costs and expenses | 50,671 | 887,602 | 414,336 | (2,196) |) 1,350,413 |
| Operating (loss) income | (50,671) |) 225,841 | 16,077 | — |) 191,247 |
| Equity in earnings (losses) of unconsolidated affiliates | 190,477 | 10,123 | (223) |) (201,546) |) (1,169) |
| Interest expense | (13,072) |) (2,143) |) (106) |) — |) (15,321) |
| Other (expense) income, net | (52,339) |) (27,518) |) 81,511 | — |) 1,654 |
| Earnings from continuing operations before income taxes | 74,395 | 206,303 | 97,259 | (201,546) |) 176,411 |
| Income tax benefit (provision) | 39,544 | (74,511) |) (30,195) |) — |) (65,162) |
| Earnings from continuing operations | 113,939 | 131,792 | 67,064 | (201,546) |) 111,249 |
| (Loss) earnings from discontinued operations, net of tax | (2,012) |) — | 11 | (11) |) (2,012) |
| Net earnings | 111,927 | 131,792 | 67,075 | (201,557) |) 109,237 |
| Net loss attributable to noncontrolling interests | — | 412 | 2,278 | — |) 2,690 |
| Net earnings attributable to IAC shareholders | \$111,927 | \$132,204 | \$69,353 | \$(201,557) |) \$111,927 |
| Comprehensive income attributable to IAC shareholders | \$111,909 | \$132,066 | \$47,763 | \$(179,829) |) \$111,909 |

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

Statement of cash flows for the six months ended June 30, 2014:

| | IAC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Total Eliminations | IAC Consolidated |
|---|----------------|---------------------------|-------------------------------|-----------------------|---------------------|
| | (In thousands) | | | | |
| Net cash (used in) provided by operating activities attributable to continuing operations | \$(38,576) | \$193,388 | \$(6,041) | \$— | \$148,771 |
| Cash flows from investing activities attributable to continuing operations: | | | | | |
| Acquisitions, net of cash acquired | — | (88,462) | (15,175) | — | (103,637) |
| Capital expenditures | (2,390) | (16,477) | (7,690) | — | (26,557) |
| Proceeds from maturities and sales of marketable debt securities | 998 | — | — | — | 998 |
| Purchases of marketable debt securities | (78,380) | — | — | — | (78,380) |
| Proceeds from sales of long-term investments | — | — | 2,803 | — | 2,803 |
| Purchases of long-term investments | (3,000) | (6,761) | (4,940) | — | (14,701) |
| Other, net | — | 11 | (627) | — | (616) |
| Net cash used in investing activities attributable to continuing operations | (82,772) | (111,689) | (25,629) | — | (220,090) |
| Cash flows from financing activities attributable to continuing operations: | | | | | |
| Dividends | (40,086) | — | — | — | (40,086) |
| Issuance of common stock, net of withholding taxes | (13,823) | — | — | — | (13,823) |
| Excess tax benefits from stock-based awards | 22,116 | — | 10,773 | — | 32,889 |
| Purchase of noncontrolling interest | — | (30,000) | — | — | (30,000) |
| Funds returned from escrow for Meetic tender offer | — | — | 12,354 | — | 12,354 |
| Acquisition-related contingent consideration payment | — | — | (7,373) | — | (7,373) |
| Intercompany | 104,410 | (51,723) | (52,687) | — | — |
| Other, net | (383) | — | 242 | — | (141) |
| Net cash provided by (used in) financing activities attributable to continuing operations | 72,234 | (81,723) | (36,691) | — | (46,180) |
| Total cash used in continuing operations | (49,114) | (24) | (68,361) | — | (117,499) |
| Total cash used in discontinued operations | (116) | — | (41) | — | (157) |
| Effect of exchange rate changes on cash and cash equivalents | — | 24 | 4,514 | — | 4,538 |
| Net decrease in cash and cash equivalents | (49,230) | — | (63,888) | — | (113,118) |
| Cash and cash equivalents at beginning of period | 782,022 | — | 318,422 | — | 1,100,444 |
| Cash and cash equivalents at end of period | \$732,792 | \$— | \$254,534 | \$— | \$987,326 |

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

Statement of cash flows for the six months ended June 30, 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 | \$(32,997) | \$260,013 | \$1,247 | \$— | \$228,263 |
| Cash flows from investing activities attributable to continuing operations: | | | | | |
| Acquisitions, net of cash acquired | — | (6,572) | (30,341) | — | (36,913) |
| Capital expenditures | (719) | (39,071) | (8,029) | — | (47,819) |
| Proceeds from maturities and sales of marketable debt securities | 12,502 | — | — | — | 12,502 |
| Proceeds from sales of long-term investments | — | — | 310 | — | 310 |
| Purchases of long-term investments | (17,362) | — | (7,897) | — | (25,259) |
| Other, net | (55) | 38 | (1,426) | — | (1,443) |
| Net cash used in investing activities attributable to continuing operations | (5,634) | (45,605) | (47,383) | — | (98,622) |
| Cash flows from financing activities attributable to continuing operations: | | | | | |
| Principal payments on long-term debt | (15,844) | — | — | — | (15,844) |
| Purchase of treasury stock | (162,660) | — | — | — | (162,660) |
| Dividends | (38,880) | — | — | — | (38,880) |
| Issuance of common stock, net of withholding taxes | (868) | — | — | — | (868) |
| Excess tax benefits from stock-based awards | 23,547 | — | — | — | 23,547 |
| Intercompany | 144,320 | (213,207) | 68,887 | — | — |
| Other, net | (927) | (1,224) | (1,483) | — | (3,634) |
| Net cash (used in) provided by financing activities attributable to continuing operations | (51,312) | (214,431) | 67,404 | — | (198,339) |
| Total cash (used in) provided by continuing operations | (89,943) | (23) | 21,268 | — | (68,698) |
| Total cash provided by discontinued operations | 2,335 | — | — | — | 2,335 |
| Effect of exchange rate changes on cash and cash equivalents | — | 23 | (4,912) | — | (4,889) |
| Net (decrease) increase in cash and cash equivalents | (87,608) | — | 16,356 | — | (71,252) |
| Cash and cash equivalents at beginning of period | 501,075 | — | 248,902 | — | 749,977 |
| Cash and cash equivalents at end of period | \$413,467 | \$— | \$265,258 | \$— | \$678,725 |

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

GENERAL

Management Overview

IAC is a leading media and Internet company comprised of more than 150 brands and products, including Ask.com, About.com, Match.com, HomeAdvisor 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. 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.

For a more detailed description of the Company's operating businesses, see the Company's annual report on Form 10-K for the year ended December 31, 2013.

A substantial portion of the Company's revenue is derived from online advertising. Most of the Company's online advertising revenue is attributable to our services agreement with Google Inc. ("Google"), which expires on March 31, 2016. 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 three months ended June 30, 2014 and 2013, revenue earned from Google is \$349.5 million and \$405.8 million, respectively. For the six months ended June 30, 2014 and 2013, revenue earned from Google is \$704.6 million and \$781.9 million, respectively. This revenue is earned by the businesses comprising the Search & Applications segment.

Results of Operations for the three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013

Revenue

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | | | |
|---------------------------|-----------------------------|------------|----------|---------------------------|-----------|------------|----------|-----------|
| | 2014 | \$ Change | % Change | 2013 | 2014 | \$ Change | % Change | 2013 |
| | (Dollars in thousands) | | | | | | | |
| Search & Applications | \$395,716 | \$(31,733) | (7)% | \$427,449 | \$793,751 | \$(30,890) | (4)% | \$824,641 |
| The Match Group | 214,314 | 16,327 | 8% | 197,987 | 425,501 | 34,639 | 9% | 390,862 |
| Media | 36,656 | (20,839) | (36)% | 57,495 | 73,011 | (29,479) | (29)% | 102,490 |
| eCommerce | 109,949 | (6,642) | (6)% | 116,591 | 204,791 | (19,097) | (9)% | 223,888 |
| Inter-segment elimination | (320) | (209) | (187)% | (111) | (492) | (271) | (123)% | (221) |

Edgar Filing: IAC/INTERACTIVECORP - Form 10-Q

| | | | | | | | | |
|-------|-----------|-------------|------|-----------|-------------|-------------|------|-------------|
| Total | \$756,315 | \$(43,096) | (5)% | \$799,411 | \$1,496,562 | \$(45,098) | (3)% | \$1,541,660 |
|-------|-----------|-------------|------|-----------|-------------|-------------|------|-------------|

31

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

Search & Applications revenue decreased 7% to \$395.7 million reflecting a decline from Applications (which includes our direct to consumer downloadable applications operations (B2C), our partnership operations (B2B) and SlimWare), partially offset by a slight increase from Websites (which principally includes Ask.com, About.com, CityGrid Media, Dictionary.com, Investopedia.com and PriceRunner.com). Applications revenue decreased 15% to \$190.5 million, despite query growth from our B2C operations, primarily due to lower queries from our B2B operations. Websites revenue grew 1% to \$205.2 million due to the acquisition of the ValueClick "Owned & Operated" ("O&O") website businesses on January 10, 2014, the contribution of CityGrid Media, which had been moved from the eCommerce segment to the Search & Applications segment, effective July 1, 2013, and growth from About.com, partially offset by a decline in revenue at Ask.com.

The Match Group revenue increased 8% to \$214.3 million driven by a 7% increase in Dating revenue. Dating North America revenue (which includes Match.com, Chemistry, People Media, OkCupid and other dating businesses operating within the United States and Canada and is referred to as "North America") and Dating International revenue (which includes all dating businesses operating outside of the United States and Canada and is referred to as "International") increased 6% to \$138.1 million and 8% to \$69.5 million, respectively. These businesses are collectively referred to as "Dating". Non-dating revenue (consisting of DailyBurn and Tutor) increased 84%. The growth in revenue was driven by increased subscribers across the segment. North America and International paid subscribers increased 11% and 6%, respectively.

Media revenue decreased 36% to \$36.7 million primarily due to the impact of the closure of the Newsweek print business and the sale of the Newsweek digital business in August 2013 as well as the timing of Electus projects, partially offset by continued strong growth at Vimeo.

eCommerce revenue decreased 6% to \$109.9 million primarily due to the move of CityGrid Media from the eCommerce segment to the Search & Applications segment, partially offset by increases from HomeAdvisor and Shoebuy.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

Search & Applications revenue decreased 4% to \$793.8 million reflecting a decline from Applications, partially offset by an increase from Websites. Applications revenue decreased 11% to \$384.8 million, while Websites revenue grew 4% to \$408.9 million. The decrease in Applications revenue and the increase in Websites revenue are primarily due to the factors described above in the three month discussion.

The Match Group revenue increased 9% to \$425.5 million driven by an 8% increase in Dating revenue and a 68% increase in non-dating revenue. North America revenue and International revenue increased 7% to \$272.6 million and 10% to \$140.0 million, respectively, driven by the factors described above in the three month discussion.

Media and eCommerce revenue decreased 29% to \$73.0 million and 9% to \$204.8 million, respectively, primarily due to the factors described above in the three month discussion.

Cost of revenue

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

| | Three Months Ended June 30, | | | |
|--|-----------------------------|------------|----------|-----------|
| | 2014 | \$ Change | % Change | 2013 |
| | (Dollars in thousands) | | | |
| Cost of revenue (exclusive of depreciation shown separately below) | \$211,100 | \$(61,722) | (23)% | \$272,822 |
| As a percentage of revenue | 28% | | | 34% |

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.

Cost of revenue in 2014 decreased from 2013 primarily due to decreases of \$45.9 million from Search & Applications and \$13.4 million from Media. Cost of revenue from Search & Applications decreased primarily due to a decrease of \$50.4 million in traffic acquisition costs driven primarily by lower revenue from our B2B operations and Ask.com, partially offset by the acquisition of the ValueClick O&O website businesses and the move of CityGrid Media to the Search & Applications segment. The decrease in cost of revenue from Media was primarily due to lower production costs at Electus resulting from the timing of projects.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

| | Six Months Ended June 30, | | | 2013 |
|----------------------------|---------------------------|-------------|----------|-----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Cost of revenue | \$420,294 | \$(108,377) | (20)% | \$528,671 |
| As a percentage of revenue | 28% | | | 34% |

Cost of revenue in 2014 decreased from 2013 primarily due to decreases of \$83.1 million from Search & Applications, \$18.9 million from Media and \$13.0 million from eCommerce, partially offset by an increase of \$7.7 million from The Match Group. The decreases in cost of revenue from Search & Applications and Media are primarily due to the factors described above in the three month discussion. Cost of revenue from eCommerce decreased primarily due to the move of CityGrid Media to the Search & Applications segment, partially offset by an increase in traffic acquisition costs from Felix and an increase in the cost of products sold at Shoebuy resulting from increased sales. The increase in cost of revenue from The Match Group is primarily due to increases in hosting fees and customer acquisition costs.

Selling and marketing expense

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

| | Three Months Ended June 30, | | | 2013 |
|-------------------------------|-----------------------------|-----------|----------|-----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Selling and marketing expense | \$272,786 | \$25,633 | 10% | \$247,153 |
| As a percentage of revenue | 36% | | | 31% |

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

Selling and marketing expense in 2014 increased from 2013 primarily due to increases of \$14.8 million from Search & Applications and \$8.9 million from The Match Group. Selling and marketing expense from Search & Applications increased primarily due to a \$16.1 million increase in online marketing spend, which was primarily related to our B2C downloadable applications, the acquisition of the ValueClick O&O website businesses and an increase in compensation and other employee-related costs, partially offset by a decrease in television advertising at Ask.com. The increase in selling and marketing expense from The Match Group was primarily due to an increase of \$8.7 million in both offline and online marketing spend at Dating and DailyBurn.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

| | Six Months Ended June 30, | | | 2013 |
|-------------------------------|---------------------------|-----------|----------|-----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Selling and marketing expense | \$571,498 | \$81,431 | 17% | \$490,067 |
| As a percentage of revenue | 38% | | | 32% |

Selling and marketing expense in 2014 increased from 2013 primarily due to increases of \$61.8 million from Search & Applications and \$22.5 million from The Match Group, partially offset by a decrease of \$4.1 million from eCommerce. The increases in selling and marketing expense from Search & Applications and The Match Group are primarily due to the factors described above in the three month discussion. Search & Applications was further impacted by the move of CityGrid Media to the Search & Applications segment. Selling and marketing expense from eCommerce decreased primarily due to the move of CityGrid Media to the Search & Applications segment, partially offset by increases in offline marketing spend and compensation and other employee-related costs at HomeAdvisor.

General and administrative expense

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

| | Three Months Ended June 30, | | | 2013 |
|------------------------------------|-----------------------------|-----------|----------|-----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| General and administrative expense | \$109,719 | \$6,204 | 6% | \$103,515 |
| As a percentage of revenue | 15% | | | 13% |

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

General and administrative expense in 2014 increased from 2013 primarily due to increases of \$7.1 million from Search & Applications and \$3.6 million from Corporate, partially offset by decreases of \$2.1 million from eCommerce and \$1.4 million from The Match Group. The increase in general and administrative expense from Search & Applications is primarily due to the move of CityGrid Media from the eCommerce segment and the acquisition of the ValueClick O&O website businesses. General and administrative expense from Corporate increased primarily due to an increase of \$5.0 million in non-cash compensation expense, partially offset by lower salary expense and professional fees. The increase in non-cash compensation expense is primarily due to higher forfeitures in the prior year and the issuance of equity awards since the second quarter of 2013. The decrease in general and administrative expense from eCommerce is primarily due to the inclusion in the prior year of \$4.2 million in employee termination costs associated with the CityGrid Media restructuring and the move of CityGrid Media to the Search & Applications segment, partially offset by an increase in compensation and other employee-related costs at HomeAdvisor and Shoebuy due, in part, to increases in headcount. General and administrative expense from The Match Group decreased primarily due to a decrease of \$3.5 million in acquisition-related contingent consideration fair value adjustments, partially offset by higher professional fees.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

| | Six Months Ended June 30, | | | 2013 |
|------------------------------------|---------------------------|-----------|----------|-----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| General and administrative expense | \$204,535 | \$5,296 | 3% | \$199,239 |
| As a percentage of revenue | 14% | | | 13% |

General and administrative expense in 2014 increased from 2013 primarily due to increases of \$11.1 million from Search & Applications and \$3.9 million from Corporate, partially offset by decreases of \$4.6 million from eCommerce, \$3.0 million from The Match Group and \$2.2 million from Media. The increase from Search & Applications and the decreases from eCommerce and The Match Group are primarily due to the factors described above in the three month discussion. General and administrative expense from Corporate increased primarily due to increases in professional fees and compensation and other employee-related costs. The decrease in general and administrative expense from The Match Group was further impacted by a \$3.9 million benefit recorded in the first quarter of 2014 related to the expiration of the statute of limitations for a non-income tax matter, partially offset by an increase in compensation and other employee-related costs at our Dating businesses due, in part, to an increase in headcount. General and administrative expense from Media decreased primarily due to the closure of the Newsweek print business and the sale of the Newsweek digital business in August 2013, partially offset by an increase in

compensation and other employee-related costs due to increased headcount at Vimeo.

Product development expense

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

| | Three Months Ended June 30, | | | 2013 |
|-----------------------------|-----------------------------|-----------|----------|----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Product development expense | \$38,357 | \$4,305 | 13% | \$34,052 |
| As a percentage of revenue | 5% | | | 4% |

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

Product development expense in 2014 increased from 2013 primarily due to an increase of \$3.4 million from Search & Applications. The increase in product development expense from Search & Applications is primarily related to an increase in compensation and other employee-related costs due, in part, to the acquisition of the ValueClick O&O website businesses.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

| | Six Months Ended June 30, | | | 2013 |
|-----------------------------|---------------------------|-----------|----------|----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Product development expense | \$77,373 | \$8,204 | 12% | \$69,169 |
| As a percentage of revenue | 5% | | | 4% |

Product development expense in 2014 increased from 2013 primarily due to increases of \$5.9 million from Search & Applications and \$1.2 million from The Match Group. The increase in product development expense from Search & Applications is primarily due to the factors described above in the three month discussion. The increase from The Match Group is primarily due to an increase in compensation and other employee-related costs.

Depreciation

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

| | Three Months Ended June 30, | | | 2013 |
|----------------------------|-----------------------------|-----------|----------|----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Depreciation | \$15,257 | \$(1,779) | (10)% | \$17,036 |
| As a percentage of revenue | 2% | | | 2% |

Depreciation in 2014 decreased from 2013 resulting from the inclusion in the prior year of the write-off of \$2.7 million in capitalized software costs at The About Group primarily related to projects which commenced prior to its acquisition and from certain fixed assets becoming fully depreciated, partially offset by incremental depreciation associated with capital expenditures made throughout 2013 and various acquisitions.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

| | Six Months Ended June 30, | | | 2013 |
|----------------------------|---------------------------|-----------|----------|----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Depreciation | \$30,075 | \$(977) | (3)% | \$31,052 |
| As a percentage of revenue | 2% | | | 2% |

Depreciation in 2014 decreased from 2013 primarily due to the factors described above in the three month discussion.

Adjusted EBITDA

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | | | |
|----------------------------|-----------------------------|-------------|----------|---------------------------|-----------|-------------|----------|-----------|
| | 2014 | \$ Change | % Change | 2013 | 2014 | \$ Change | % Change | 2013 |
| | (Dollars in thousands) | | | | | | | |
| Search & Applications | \$91,258 | \$(11,162) | (11)% | \$102,420 | \$173,329 | \$(26,605) | (13)% | \$199,934 |
| The Match Group | 69,368 | 1,683 | 2% | 67,685 | 116,798 | 1,207 | 1% | 115,591 |
| Media | (8,911) | (7,908) | (789)% | (1,003) | (16,775) | (9,592) | (134)% | (7,183) |
| eCommerce | 4,523 | 56 | 1% | 4,467 | 7,327 | 2,137 | 41% | 5,190 |
| Corporate | (14,806) | 825 | 5% | (15,631) | (31,152) | (2,324) | (8)% | (28,828) |
| Total | \$141,432 | \$(16,506) | (10)% | \$157,938 | \$249,527 | \$(35,177) | (12)% | \$284,704 |
| As a percentage of revenue | 19% | | | 20% | 17% | | | 18% |

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

Search & Applications Adjusted EBITDA decreased 11% to \$91.3 million, primarily due to the lower revenue noted above and an increase in selling and marketing expense, partially offset by the contribution from the acquisition of the ValueClick O&O website businesses and the move of CityGrid Media to the Search & Applications segment. The increase in selling and marketing expense is primarily due to an increase in online marketing spend, which was primarily related to our B2C downloadable applications, partially offset by a decrease in television advertising of Ask.com. Partially offsetting the increase in selling and marketing expense is a decrease in cost of revenue, primarily due to a decrease in traffic acquisition costs driven primarily by lower revenue from our B2B operations and Ask.com. The Match Group Adjusted EBITDA increased 2% to \$69.4 million, primarily due to the higher revenue noted above, partially offset by higher selling and marketing expense. The increase in selling and marketing expense is primarily due to an increase in both offline and online marketing spend at Dating and DailyBurn.

Media Adjusted EBITDA loss increased \$7.9 million to a loss of \$8.9 million primarily due to the favorable effect in the prior year of certain items related to the Newsweek print closure in the second quarter of 2013, and increased investment in Vimeo in the current year.

eCommerce Adjusted EBITDA increased 1% to \$4.5 million primarily due to the inclusion in the prior year of \$4.2 million in employee termination costs associated with the CityGrid Media restructuring and the move of CityGrid Media to the Search & Applications segment, partially offset by increased investment in the current year at both HomeAdvisor and Shoebuy.

Corporate Adjusted EBITDA loss decreased 5% to a loss of \$14.8 million primarily due to lower salary expense and professional fees.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

Search & Applications Adjusted EBITDA decreased 13% to \$173.3 million, primarily due to the factors described above in the three month discussion.

The Match Group Adjusted EBITDA increased 1% to \$116.8 million, primarily due to the higher revenue noted above, partially offset by higher selling and marketing expense, cost of revenue and product development expense. The increase in selling and marketing expense is primarily due to the factors described above in the three month discussion. The increase in cost of revenue is primarily due to increases in hosting fees and customer acquisition costs. The increase in product development expense is primarily due to an increase in compensation and other employee-related costs. Partially offsetting these increases in expense is a \$3.9 million benefit recorded in general and administrative expense in the first quarter of 2014 related to the expiration of the statute of limitations for a non-income tax matter.

Media Adjusted EBITDA loss increased \$9.6 million to a loss of \$16.8 million primarily due to the factors described above in the three month discussion, partially offset by a decrease in cost of revenue driven by lower production costs at Electus resulting from the timing of projects.

eCommerce Adjusted EBITDA increased 41% to \$7.3 million primarily due to the factors described above in the three month discussion.

Corporate Adjusted EBITDA loss increased 8% to a loss of \$31.2 million primarily due to higher professional fees and an increase in compensation and other employee-related costs.

Operating income (loss)

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | | | |
|----------------------------|-----------------------------|-------------|----------|---------------------------|-----------|-------------|----------|-----------|
| | 2014 | \$ Change | % Change | 2013 | 2014 | \$ Change | % Change | 2013 |
| | (Dollars in thousands) | | | | | | | |
| Search & Applications | \$77,771 | \$(11,575) | (13)% | \$89,346 | \$148,108 | \$(28,221) | (16)% | \$176,329 |
| The Match Group | 61,198 | 8,069 | 15% | 53,129 | 101,001 | 10,513 | 12% | 90,488 |
| Media | (9,794) | (7,761) | (382)% | (2,033) | (18,360) | (9,170) | (100)% | (9,190) |
| eCommerce | 8 | 4,611 | NM | (4,603) | (1,553) | 7,543 | 83% | (9,096) |
| Corporate | (33,493) | (4,350) | (15)% | (29,143) | (61,794) | (4,510) | (8)% | (57,284) |
| Total | \$95,690 | \$(11,006) | (10)% | \$106,696 | \$167,402 | \$(23,845) | (12)% | \$191,247 |
| As a percentage of revenue | 13% | | | 13% | 11% | | | 12% |

NM = not meaningful

Refer to Note 8 to the consolidated financial statements for reconciliations of Adjusted EBITDA to operating income (loss) by reportable segment.

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

Operating income in 2014 decreased from 2013 primarily due to the decrease of \$16.5 million in Adjusted EBITDA described above and an increase of \$4.7 million in non-cash compensation expense, partially offset by decreases of \$4.7 million in amortization of intangibles, \$3.7 million in acquisition-related contingent consideration fair value adjustments and \$1.8 million in depreciation. The increase in non-cash compensation expense is primarily due to higher forfeitures in the prior year and the issuance of equity awards since the second quarter of 2013. The decrease in amortization of intangibles is primarily related to lower amortization expense at The Match Group due to certain intangible assets becoming fully amortized, and the inclusion in the prior year of a \$3.4 million impairment charge associated with an indefinite-lived intangible asset related to the CityGrid restructuring. The decrease in acquisition-related contingent consideration fair value adjustments is principally related to the acquisition of Twoo. At June 30, 2014, there was \$109.8 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 2.1 years.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

Operating income in 2014 decreased from 2013 primarily due to the decrease of \$35.2 million in Adjusted EBITDA described above and an increase of \$1.7 million in non-cash compensation expense, partially offset by decreases of \$6.8 million in amortization of intangibles, \$5.2 million in acquisition-related contingent consideration fair value adjustments and \$1.0 million in depreciation. The increase in non-cash compensation expense and the decreases in amortization of intangibles and acquisition-related contingent consideration fair value adjustments are due to the factors described above in the three month discussion.

Equity in losses of unconsolidated affiliates

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

| | Three Months Ended June 30, | | | 2013 |
|---|-----------------------------|-----------|----------|-----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Equity in losses of unconsolidated affiliates | \$(6,850) | \$(5,772) | (535)% | \$(1,078) |

Equity in losses of unconsolidated affiliates in 2014 increased from 2013 principally due to a \$4.2 million other-than-temporary impairment charge on one of our investments following the sale of a majority of the investee's assets.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

| | Six Months Ended June 30, | | | 2013 |
|---|---------------------------|-----------|----------|-----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Equity in losses of unconsolidated affiliates | \$(8,785) | \$(7,616) | (651)% | \$(1,169) |

Equity in losses of unconsolidated affiliates in 2014 increased from 2013 primarily due to the factor described above in the three month discussion.

Interest expense

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

| | Three Months Ended June 30, | | | 2013 |
|------------------|-----------------------------|-----------|----------|-----------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Interest expense | \$(14,046) | \$(6,388) | (83)% | \$(7,658) |

Interest expense in 2014 increased from 2013 principally due to the 4.875% Senior Notes due November 30, 2018, which were issued on November 15, 2013.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

| | Six Months Ended June 30, | | | 2013 |
|------------------|---------------------------|------------|----------|------------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Interest expense | \$(28,110) | \$(12,789) | (83)% | \$(15,321) |

Interest expense in 2014 increased from 2013 principally due to the factor described above in the three month discussion.

Other (expense) income, net

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

| | Three Months Ended June 30, | | | 2013 |
|--------------------|-----------------------------|------------|----------|-------|
| | 2014 | \$ Change | % Change | |
| | (Dollars in thousands) | | | |
| Other expense, net | \$(62,900) | \$(62,896) | NM | \$(4) |

Other expense, net in 2014 increased from 2013 principally due to \$64.2 million in other-than-temporary impairment charges for certain cost method investments as a result of our assessment of the near-term prospects and financial condition of the investees.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

| | Six Months Ended June 30, | | | |
|-----------------------------|---------------------------|------------|----------|---------|
| | 2014 | \$ Change | % Change | 2013 |
| | (Dollars in thousands) | | | |
| Other (expense) income, net | \$(62,923) | \$(64,577) | NM | \$1,654 |

Other (expense) income, net in 2014 consists primarily of the impairment charges described above in the three month discussion.

Income tax provision

For the three months ended June 30, 2014 compared to the three months ended June 30, 2013

| | Three Months Ended June 30, | | | |
|----------------------|-----------------------------|-----------|----------|------------|
| | 2014 | \$ Change | % Change | 2013 |
| | (Dollars in thousands) | | | |
| Income tax provision | \$(29,889) | NM | NM | \$(39,416) |

In 2014, the Company recorded an income tax provision for continuing operations of \$29.9 million, which represents an effective income tax rate of 251%. The 2014 effective rate is higher than the statutory rate of 35% due primarily to the largely unbenefited loss associated with the write-downs of certain of the Company's investments, interest on reserves for income tax contingencies, and state taxes, partially offset by foreign income taxed at lower rates. In 2013, the Company recorded an income tax provision for continuing operations of \$39.4 million, which represents an effective income tax rate of 40%. The 2013 effective rate is higher than the statutory rate of 35% due primarily to state taxes and interest on reserves for income tax contingencies, partially offset by foreign income taxed at lower rates.

For the six months ended June 30, 2014 compared to the six months ended June 30, 2013

| | Six Months Ended June 30, | | | |
|----------------------|---------------------------|-----------|----------|------------|
| | 2014 | \$ Change | % Change | 2013 |
| | (Dollars in thousands) | | | |
| Income tax provision | \$(51,274) | NM | NM | \$(65,162) |

In 2014, the Company recorded an income tax provision for continuing operations of \$51.3 million, which represents an effective income tax rate of 76%. The 2014 effective rate is higher than the statutory rate of 35% due primarily to the factors described above in the three month discussion. In 2013, the Company recorded an income tax provision for continuing operations of \$65.2 million, which represents an effective income tax rate of 37%. The 2013 effective rate is higher than the statutory rate of 35% due primarily to the factors described above in the three month discussion. The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax provision. Included in the income tax provision for continuing operations and discontinued operations for the three months ended June 30, 2014 is a \$1.5 million and a \$0.8 million expense, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. Included in the income tax provision for continuing operations and discontinued operations for the six months ended June 30, 2014 is a \$3.1 million and a \$1.6 million expense, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. At June 30, 2014 and December 31, 2013, the Company has accrued \$140.7 million and \$133.0 million, respectively, for the payment of interest. At June 30, 2014 and December 31, 2013, the Company has accrued \$5.3 million and \$5.1 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. In June 2014, the Internal Revenue Service notified the Company that it will audit the Company's tax returns for the years ended December 31, 2010 through 2012. Various other 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.

At June 30, 2014 and December 31, 2013, unrecognized tax benefits, including interest, are \$412.0 million and \$408.8 million, respectively. The statute of limitations for federal income taxes for the years 2001 through 2009 expired on July 1, 2014. As a result, previously unrecognized tax benefits, including interest, totaling \$374.8 million will be recognized in the third quarter of 2014. The income tax benefit to continuing operations and discontinued operations will be \$88.3 million and \$175.7 million, respectively. The remaining amount of \$110.8 million will affect various balance sheet accounts, primarily non-current deferred tax assets, which will be reduced by \$100.0 million. If the remaining balance of unrecognized tax benefits at June 30, 2014 is subsequently recognized, \$32.5 million, net of related deferred tax assets and interest, would reduce income tax provision for continuing operations. Excluding the amounts related to the 2001-2009 period described above, the Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by an additional \$11.6 million within twelve months of the current reporting date, of which approximately \$8.3 million would decrease income tax provision for continuing operations, primarily due to expirations of statutes of limitations.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2014, the Company had \$987.3 million of cash and cash equivalents, \$81.6 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 AAA rated money market funds and time deposits. Marketable securities consist of short-to-medium-term debt securities issued by investment grade corporate issuers and an equity security. 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 million in 2013 Senior Notes due November 30, 2018, \$500 million in 2012 Senior Notes due December 15, 2022 and \$80 million in Liberty Bonds due September 1, 2035.

At June 30, 2014, \$251.5 million of the \$987.3 million of cash and cash equivalents was held by the Company's foreign subsidiaries. If needed for our operations in the U.S., most of the cash and cash equivalents held by the Company's foreign subsidiaries could be repatriated to the U.S. but, under current law, would be subject to U.S. federal and state income taxes. We have not provided for any such tax because 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:

| | Six Months Ended June 30, | |
|---|---------------------------|-----------|
| | 2014 | 2013 |
| | (In thousands) | |
| Net cash provided by operating activities | \$148,771 | \$228,263 |
| Net cash used in investing activities | (220,090) | (98,622) |
| Net cash used in financing activities | (46,180) | (198,339) |

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, and the effect of changes in working capital activities. Net cash provided by operating activities attributable to continuing operations in 2014 consists of earnings from continuing operations of \$16.3 million, adjustments for non-cash items of \$133.5 million, and cash used in working capital activities of \$1.0 million. Adjustments for non-cash items primarily consist of \$64.3 million in impairments related to long-term investments, \$30.1 million of depreciation, \$26.2 million of non-cash compensation expense and \$25.4 million of amortization of intangibles, partially offset by \$32.9 million of excess tax benefits from stock-based awards. The decrease in cash from changes in working capital activities primarily consists of a decrease of \$31.2 million in accounts payable and other current liabilities and an increase in other assets of \$19.2 million, partially offset by an increase in income taxes payable of \$29.3 million and an increase in deferred revenue of \$25.9 million. The decrease in accounts payable and other current liabilities is due to a decrease in accrued revenue share, accrued employee compensation and benefits, and a seasonal decrease in payables to suppliers at Shoebuy, partially offset by an increase in accrued advertising expense at The Match Group. The decrease in accrued revenue share is primarily due to lower B2B revenue in the Search & Applications segment. The decrease in accrued employee compensation and benefits is due to the payment of 2013 cash bonuses in 2014. The increase in other assets is primarily due to a receivable related to amounts collected on our behalf by a third-party and an increase in short-term and long-term production costs at certain of our media businesses that are capitalized as the television program, video or film is being produced. The increase in income taxes payable is due to current year income tax accruals in excess of current year income tax payments. The increase in deferred revenue is primarily due to growth in subscription revenue at The Match Group and Vimeo as well as an increase at Electus due to the timing of cash received related to various production deals.

Net cash used in investing activities attributable to continuing operations in 2014 includes cash consideration used in acquisitions and investments of \$118.3 million, which includes the acquisition of the ValueClick O&O website businesses and SlimWare, the purchase of marketable debt securities of \$78.4 million and capital expenditures of \$26.6 million, primarily related to the internal development of software to support our products and services. Net cash used in financing activities attributable to continuing operations in 2014 includes \$40.1 million related to the payment of cash dividends to IAC shareholders, \$30.0 million for the purchase of noncontrolling interests, \$13.8 million in

proceeds related to the issuance of common stock, net of withholding taxes and \$7.4 million in contingent consideration payments related to the 2013 Twoo acquisition, partially offset by excess tax benefits from stock-based awards of \$32.9 million and the return of \$12.4 million of funds held in escrow related to the Meetic tender offer. Net cash provided by operating activities attributable to continuing operations in 2013 consists of earnings from continuing operations of \$111.2 million, adjustments for non-cash items of \$72.8 million and cash provided by working capital activities of \$44.2 million. Adjustments for non-cash items primarily consists of \$32.2 million of amortization of intangibles, \$31.1 million of depreciation, \$24.5 million of non-cash compensation expense, partially offset by \$23.5 million of excess tax benefits from stock-based awards. The increase in cash from changes in working capital activities primarily consists of an increase in income taxes payable of \$45.5 million and an increase in accounts payable and other current liabilities of \$23.4 million, partially offset by an increase of \$14.8 million in other current assets and an increase of \$9.8 million in accounts receivable. The increase in income taxes payable is due to current year income tax accruals in excess of current year income tax payments. The increase in accounts payable and other current liabilities is due to an increase in accrued employee compensation and benefits due to the timing of bonus payments and an increase in accrued revenue share expense primarily at Search & Applications, partially offset by a decrease in accruals due to Newsweek's transition to a digital only publication in 2013 and a seasonal decrease in payables to suppliers at Shoebuy. The increase in other current assets is primarily due to an increase in short-term and long-term production costs at certain of our media businesses that are capitalized as the television program, video or film is being produced. The increase in accounts receivable is primarily due to the growth in revenue at Search & Applications earned from our services agreement with Google; the related receivable from Google was \$140.2 million and \$125.3 million at June 30, 2013 and December 31, 2012, respectively. While Match experienced growth, its accounts receivable is principally credit card receivables and, is not significant in relation to its revenue. Electus' accounts receivable increased due to higher revenue. These increases were partially offset by a \$15.8 million decrease in accounts receivable at Newsweek due to its transition to a digital only publication.

Net cash used in investing activities attributable to continuing operations in 2013 includes cash consideration used in acquisitions and investments of \$62.2 million, which includes the acquisition of Twoo, and capital expenditures of \$47.8 million, which includes \$23.6 million related to the purchase of a 50% ownership interest in an aircraft, partially offset by net maturities and sales of marketable debt securities and sales of long-term investments of \$12.8 million.

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

The Company's principal sources of liquidity are its cash and cash equivalents and marketable securities and cash flows from operations. The Company has a \$300.0 million revolving credit facility, which expires on December 21, 2017, and is available as an additional source of financing. At June 30, 2014, 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 June 30, 2014, 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 July 29, 2014, IAC declared a quarterly cash dividend of \$0.34 per share of common and Class B common stock outstanding payable on September 1, 2014 to stockholders of record on August 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 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. The indentures governing the 2013 and 2012 Senior Notes restrict our ability to incur additional indebtedness in the event we are not in compliance with the maximum leverage ratio of 3.0 to 1.0. In addition, the terms of the revolving

credit facility require that we maintain a leverage ratio of not more than 3.0 to 1.0 and restrict our ability to incur additional indebtedness. As of June 30, 2014, the Company was in compliance with all of these covenants.

43

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

At June 30, 2014, there have been no material changes to the Company's contractual obligations, commercial commitments and off-balance sheet arrangements since the disclosure in our Annual Report on Form 10-K for the year ended December 31, 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 intangible assets and goodwill 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 three and six months ended June 30, 2014 and 2013, see Note 8 to the consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At June 30, 2014, there have been no material changes to the Company's instruments or positions that are sensitive to market risk since the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2013.

47

Item 4. Controls and Procedures

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

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

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

PART II
OTHER INFORMATION
Item 1A. Risk Factors

Cautionary Statement Regarding Forward-Looking Information

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

Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, among others: changes in senior management at IAC and/or its businesses, changes in our relationship with, or policies implemented by, Google, adverse changes in economic conditions, either generally or in any of the markets or industries in which IAC's businesses operate, adverse trends in the online advertising industry or the advertising industry generally, our ability to convert visitors to our various websites into users and customers, our ability to offer new or alternative products and services in a cost-effective manner and consumer acceptance of these products and services, changes in industry standards and technology, actual tax liabilities that differ materially from our estimates, operational and financial risks relating to acquisitions, our ability to expand successfully into international markets and regulatory changes. Certain of these and other risks and uncertainties are discussed in IAC's filings with the SEC, including in Part I "Item 1A. Risk Factors" of our annual report on Form 10-K for the fiscal year ended December 31, 2013. Other unknown or unpredictable factors that could also adversely affect IAC's business, financial condition and operating results may arise from time to time. In light of these risks and uncertainties, the forward-looking statements discussed in this report may not prove to be accurate. Accordingly, you should not place undue reliance on these forward-looking statements, which only reflect the views of IAC management as of the date of this quarterly report. IAC does not undertake to update these forward-looking statements.

Risk Factors

In addition to the other information set forth in this quarterly report, you should carefully consider the risk factors discussed in Part I "Item 1A. Risk Factors" of our annual report on Form 10-K for the fiscal year ended December 31, 2013, which could materially affect our business, financial condition or future operating results. The risks described in this report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or future operating results.

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

Issuer Purchases of Equity Securities

The Company did not purchase any shares of its common stock during the quarter ended June 30, 2014. As of that date, 8,562,170 shares of common stock remained available for repurchase under the Company's previously announced April 2013 repurchase authorization. IAC may purchase shares pursuant to this repurchase authorization over an indefinite period of time in the open market and/or privately negotiated transactions, depending on those factors IAC management deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

Item 6. Exhibits

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

| Exhibit Number | Description | Location |
|----------------|--|---|
| 3.1 | Restated Certificate of Incorporation of IAC/InterActiveCorp. | Exhibit 3.1 to the Registrant's Registration Statement on Form 8-A/A, filed on August 12, 2005. |
| 3.2 | Certificate of Amendment of the Restated Certificate of Incorporation of IAC/InterActiveCorp. | Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 22, 2008. |
| 3.3 | Amended and Restated By-Laws of IAC/InterActiveCorp. | Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on December 6, 2010. |
| 4.1 | Supplemental Indenture for 4.75% Senior Notes due 2022, dated as of May 1, 2014, among IAC/InterActiveCorp, Match Group, LLC as Guarantor and Computershare Trust Company, N.A., as Trustee. ⁽¹⁾ | |
| 4.2 | Supplemental Indenture for 4.875% Senior Notes due 2018, dated as of May 1, 2014, among IAC/InterActiveCorp, Match Group, LLC as Guarantor and Computershare Trust Company, N.A., as Trustee. ⁽¹⁾ | |
| 4.3 | Supplemental Indenture for 4.75% Senior Notes due 2022, dated as of May 15, 2014, among IAC/InterActiveCorp, the Guarantors named therein and Computershare Trust Company, N.A., as Trustee. ⁽¹⁾ | |
| 4.4 | Supplemental Indenture for 4.875% Senior Notes due 2018, dated as of May 15, 2014, among IAC/InterActiveCorp, the Guarantors named therein and Computershare Trust Company, N.A., as Trustee. ⁽¹⁾ | |
| 31.1 | Certification of the Chairman and Senior Executive pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act. ⁽¹⁾ | |
| 31.2 | Certification of the Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act. ⁽¹⁾ | |
| 32.1 | Certification of the Chairman and Senior Executive pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act. ⁽²⁾ | |
| 32.2 | Certification of the Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act. ⁽²⁾ | |
| 101.INS | XBRL Instance | |
| 101.SCH | XBRL Taxonomy Extension Schema | |
| 101.CAL | XBRL Taxonomy Extension Calculation | |
| 101.DEF | XBRL Taxonomy Extension Definition | |

101.LAB XBRL Taxonomy Extension Labels

101.PRE XBRL Taxonomy Extension Presentation

(1) Filed herewith.

50

(2) Furnished herewith.

51

SIGNATURES

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

Dated: July 31, 2014

IAC/INTERACTIVECORP

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

| Signature | Title | Date |
|--------------------------------------|---|---------------|
| /s/ JEFFREY W. KIP Jeffrey W. Kip | Executive Vice President and Chief Financial Officer | July 31, 2014 |

QuickLinks

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

IAC/INTERACTIVECORP CONSOLIDATED BALANCE SHEET (Unaudited)

IAC/INTERACTIVECORP CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

IAC/INTERACTIVECORP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

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

IAC/INTERACTIVECORP CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

IAC/INTERACTIVECORP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

GENERAL

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

IAC'S PRINCIPLES OF FINANCIAL REPORTING

RECONCILIATION OF ADJUSTED EBITDA

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II OTHER INFORMATION

Item 1A. Risk Factors

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

Item 6. Exhibits

SIGNATURES