IAC/INTERACTIVECORP
Form 10-Q
November 08, 2012
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As filed with the Securities and Exchange Commission on November 8, 2012

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2012
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from__________to__________
Commission File No. 0-20570

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

Delaware	59-2712887
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

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

As of October 19, 2012, the following shares of the registrant's common stock were outstanding:

Common Stock	82,665,959
Class B Common Stock	5,789,499

Total outstanding Common Stock	88,455,458

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of October 19, 2012 was $4,319,523,212. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

PART I
FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements
IAC/INTERACTIVECORP
CONSOLIDATED BALANCE SHEET
(Unaudited)

	September 30, 2012	December 31, 2011
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$501,779	$704,153
Marketable securities	138,926	165,695
Accounts receivable, net of allowance of $8,071 and $7,309, respectively	220,735	177,030
Other current assets	126,787	112,255
Total current assets	988,227	1,159,133
Property and equipment, net	272,317	259,588
Goodwill	1,556,833	1,358,524
Intangible assets, net	491,485	378,107
Long-term investments	169,728	173,752
Other non-current assets	103,985	80,761
TOTAL ASSETS	$3,582,575	$3,409,865
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Current maturities of long-term debt	$15,844	$—
Accounts payable, trade	86,810	64,398
Deferred revenue	159,498	126,297
Accrued expenses and other current liabilities	362,917	343,490
Total current liabilities	625,069	534,185
Long-term debt, net of current maturities	80,000	95,844
Income taxes payable	479,693	450,533
Deferred income taxes	304,889	302,213
Other long-term liabilities	33,332	16,601
Redeemable noncontrolling interests	58,956	50,349
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Common stock $.001 par value; authorized 1,600,000,000 shares; issued 248,747,173 and 234,100,950 shares, respectively, and outstanding 82,646,948 and 77,126,881 shares, respectively	249	234
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	11,627,593	11,280,173
Accumulated deficit	(359,258)	(477,785)
Accumulated other comprehensive loss	(11,891)	(12,443)
Treasury stock 176,468,225 and 167,342,069 shares, respectively	(9,308,315)	(8,885,146)
Total IAC shareholders' equity	1,948,394	1,905,049
Noncontrolling interests	52,242	55,091

Total shareholders' equity	2,000,636	1,960,140
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,582,575	$3,409,865

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

IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Revenue	$714,470	$516,884	$2,035,682	$1,462,501
Costs and expenses:				
Cost of revenue (exclusive of depreciation shown separately below)	261,932	188,642	722,193	542,832
Selling and marketing expense	236,763	153,296	669,671	426,764
General and administrative expense	94,876	84,628	278,895	241,472
Product development expense	24,504	21,556	71,101	56,558
Depreciation	13,150	17,484	37,490	43,373
Amortization of intangibles	5,212	4,538	18,058	9,195
Total costs and expenses	636,437	470,144	1,797,408	1,320,194
Operating income	78,033	46,740	238,274	142,307
Equity in losses of unconsolidated affiliates	(3,298)	(15,078)	(28,208)	(25,677)
Other (expense) income, net	(944)	4,308	(1,267)	10,697
Earnings from continuing operations before income taxes	73,791	35,970	208,799	127,327
Income tax (provision) benefit	(27,606)	32,003	(83,360)	6,444
Earnings from continuing operations	46,185	67,973	125,439	133,771
Loss from discontinued operations, net of tax	(5,624)	(3,922)	(6,581)	(8,358)
Net earnings	40,561	64,051	118,858	125,413
Net loss (earnings) attributable to noncontrolling interests	156	922	(331)	54
Net earnings attributable to IAC shareholders	$40,717	$64,973	$118,527	$125,467
Per share information attributable to IAC shareholders:				
Basic earnings per share from continuing operations	$0.52	$0.81	$1.46	$1.52
Diluted earnings per share from continuing operations	$0.49	$0.73	$1.35	$1.41
Basic earnings per share	$0.46	$0.77	$1.38	$1.43
Diluted earnings per share	$0.43	$0.69	$1.28	$1.32
Dividends declared per share	$0.24	$—	$0.48	$—
Non-cash compensation expense by function:				
Cost of revenue	$1,550	$1,449	$4,775	$3,682
Selling and marketing expense	1,386	1,241	3,512	3,476
General and administrative expense	18,850	18,118	52,378	53,444
Product development expense	1,565	2,077	4,593	5,451
Total non-cash compensation expense	$23,351	$22,885	$65,258	$66,053

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands)			
Net earnings	$40,561	$64,051	$118,858	$125,413
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment	14,609	(39,619)	(4,940)	(29,631)
Change in net unrealized (losses) gains on available-for-sale securities	(8,758)	(16,624)	4,685	18,192
Total other comprehensive income (loss)	5,851	(56,243)	(255)	(11,439)
Comprehensive income	46,412	7,808	118,603	113,974
Comprehensive (income) loss attributable to noncontrolling interests	(2,026)	7,078	476	6,084
Comprehensive income attributable to IAC shareholders	$44,386	$14,886	$119,079	$120,058

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

		IAC Shareholders' Equity									
	Redeemable Noncontrolling Interests	Common Stock $.001 Par Value $	Shares	Class B Convertible Common Stock $.001 Par Value $	Shares	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total IAC Shareholders' Equity	No Int
		(In thousands)									
Balance as of December 31, 2011	$50,349	$234	234,101	$16	16,157	$11,280,173	$(477,785)	$(12,443)	$(8,885,146)	$1,905,049	$55,
Net (loss) earnings for the nine months ended September 30, 2012	(1,311)	—	—	—	—	—	118,527	—	—	118,527	1,64
Other comprehensive (loss) income, net of tax	(485)	—	—	—	—	—	—	552	—	552	(322
Non-cash compensation expense	—	—	—	—	—	63,235	—	—	—	63,235	2,02
Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes	—	3	2,918	—	—	35,958	—	—	—	35,961	—
Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other	—	—	—	—	—	18,865	—	—	—	18,865	—
Issuance of common stock upon the exercise of	—	12	11,728	—	—	284,099	—	—	—	284,111	—

warrants											
Dividends	—	—	—	—	—	(45,841)	—	—	—	(45,841)	—
Purchase of treasury stock	—	—	—	—	—	—	—	—	(423,169)	(423,169)	—
Purchase of redeemable noncontrolling interests	(2,955)	—	—	—	—	—	—	—	—	—	—
Fair value of redeemable noncontrolling interests adjustment	8,896	—	—	—	—	(8,896)	—	—	—	(8,896)	—
Transfer from noncontrolling interests to redeemable noncontrolling interests	7,192	—	—	—	—	—	—	—	—	—	(7,19
Other	(2,730)	—	—	—	—	—	—	—	—	—	1,00
Balance as of September 30, 2012	$58,956	$249	248,747	$16	16,157	$11,627,593	$(359,258)	$(11,891)	$(9,308,315)	$1,948,394	$52,

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

IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings	$118,858	$125,413
Less: Discontinued operations, net of tax	(6,581)	(8,358)
Earnings from continuing operations	125,439	133,771
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Non-cash compensation expense	65,258	66,053
Depreciation	37,490	43,373
Amortization of intangibles	18,058	9,195
Deferred income taxes	5,410	(44,548)
Equity in losses of unconsolidated affiliates	28,208	25,677
Gain on sales of investments	(1,876)	(1,861)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(16,443)	(27,494)
Other current assets	(9,749)	9,005
Accounts payable and other current liabilities	18,700	15,512
Income taxes payable	29,479	6,173
Deferred revenue	10,575	26,668
Other, net	13,058	8,042
Net cash provided by operating activities attributable to continuing operations	323,607	269,566
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(377,123)	(278,469)
Capital expenditures	(32,363)	(27,346)
Proceeds from maturities and sales of marketable debt securities	79,353	528,170
Purchases of marketable debt securities	(47,902)	(154,718)
Proceeds from sales of long-term investments	12,744	14,021
Purchases of long-term investments	(10,031)	(84,441)
Other, net	(12,264)	(11,436)
Net cash used in investing activities attributable to continuing operations	(387,586)	(14,219)
Cash flows from financing activities attributable to continuing operations:		
Purchase of treasury stock	(434,041)	(389,566)
Issuance of common stock, net of withholding taxes	320,070	62,045
Dividends	(43,695)	—
Excess tax benefits from stock-based awards	23,486	22,878
Other, net	(4,696)	(3,699)
Net cash used in financing activities attributable to continuing operations	(138,876)	(308,342)
Total cash used in continuing operations	(202,855)	(52,995)
Total cash used in discontinued operations	(1,866)	(7,379)
Effect of exchange rate changes on cash and cash equivalents	2,347	(2,414)
Net decrease in cash and cash equivalents	(202,374)	(62,788)
Cash and cash equivalents at beginning of period	704,153	742,099
Cash and cash equivalents at end of period	$501,779	$679,311

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

IAC/INTERACTIVECORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

IAC is a leading media and internet company comprised of more than 150 brands and products, including Match.com, Ask.com, CollegeHumor.com, and CityGrid Media. Focused in the areas of search, personals, local and media, IAC's family of websites is one of largest in the world, with 1.2 billion monthly visits across more than 30 countries.

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

Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2011.

During the first and second quarters of 2012, the Company renamed and realigned its reportable segments. Search was renamed "Search & Applications". The Media & Other segment was separated into a "Media" segment and an "Other" segment. The Company created a new segment called "Local" that includes HomeAdvisor (formerly ServiceMagic), which was previously reported as its own separate segment, and CityGrid Media, which was previously included in the Search & Applications segment. In addition, DailyBurn was moved from the Search & Applications segment to the Media segment and Pronto was moved from the Media & Other segment to the Search & Applications segment. Certain prior year amounts have been reclassified to conform to the current year presentation.

Accounting Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates, judgments and assumptions that impact the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. Actual results could differ from those estimates. On an ongoing basis, the Company evaluates its estimates and judgments including those related to: the fair values of marketable securities and other investments; the recoverability of goodwill and indefinite-lived intangible assets; the useful lives and recovery of definite-lived intangible assets and property and equipment; the carrying value of accounts receivable, including the determination of the allowance for doubtful accounts and revenue reserves; the 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 paid listing supply agreement with Google Inc. ("Google"), which expires on March 31,

2016. For the three and nine months ended September 30, 2012, revenue earned from Google was $357.2 million and $1.0 billion, respectively. For the three and nine months ended September 30, 2011, revenue earned from Google was $242.9 million and $679.1 million,

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respectively. This revenue was earned by the businesses comprising the Search & Applications segment. Accounts receivable related to revenue earned from Google totaled $125.3 million at September 30, 2012 and $105.7 million at December 31, 2011.

NOTE 2—INCOME TAXES

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

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

For the three and nine months ended September 30, 2012, the Company recorded an income tax provision for continuing operations of $27.6 million and $83.4 million, respectively, which represents effective income tax rates of 37% and 40%, respectively. The effective rate for the three months ended September 30, 2012 is higher than the statutory rate of 35% due primarily to state taxes and interest on reserves for tax contingencies, partially offset by foreign income taxed at lower rates. The effective rate for the nine months ended September 30, 2012 is higher than the statutory rate of 35% due primarily to an increase in reserves for and interest on reserves for tax contingencies, a valuation allowance on the deferred tax asset created by The Newsweek/Daily Beast Company ("Newsweek Daily Beast") non-cash re-measurement charge related to our acquisition of a controlling interest, and state taxes, partially offset by foreign income taxed at lower rates and a net decrease in the valuation allowance on the beginning of the year deferred tax assets related to investments in unconsolidated affiliates.

For the three and nine months ended September 30, 2011, the Company recorded an income tax benefit for continuing operations of $32.0 million and $6.4 million, respectively, despite pre-tax income of $36.0 million and $127.3 million , respectively. The income tax benefit for the three months ended September 30, 2011 is due principally to the reversal of a previously established deferred tax liability of $43.6 million associated with the 2009 gain that was recognized upon the exchange of Match Europe for a 27% interest in Meetic S.A. ("Meetic"). In connection with the acquisition of a controlling interest in Meetic in 2011, the Company concluded that it intends to indefinitely reinvest the earnings of Match's international operations related to Meetic, including the 2009 gain on the sale of Match Europe outside of the United States. This income tax benefit was partially offset by the non-deductible nature of the non-cash re-measurement charge related to Match's 27% equity method investment in Meetic that was recorded upon our acquisition of a controlling interest. The income tax benefit for the nine months ended September 30, 2011 is due principally to the release of a previously established deferred tax liability as described above in the three month discussion, foreign income taxed at lower rates, and the reduction in state tax accruals resulting from income tax provision to tax return reconciliations and expirations of statutes of limitations, partially offset by interest on reserves for tax contingencies, states taxes, and the non-deductible nature of the non-cash re-measurement charge as described above in the three month discussion.

At September 30, 2012 and December 31, 2011, unrecognized tax benefits, including interest, were $485.8 million and $462.8 million, respectively. Unrecognized tax benefits, including interest, at September 30, 2012 increased $23.0 million from December 31, 2011 due principally to a net increase in deductible timing differences and additions for tax positions related to prior years. Of the total unrecognized tax benefits at September 30, 2012, $468.5 million is included in "Income taxes payable," $12.1 million relates to deferred tax assets included in "Deferred income taxes" and $5.2 million is included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheet. Included in unrecognized tax benefits at September 30, 2012 is $79.8 million relating to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. If unrecognized tax benefits at September 30, 2012 are subsequently recognized, $94.7 million and $226.4 million, net of related deferred tax assets and interest, would reduce income tax expense for continuing operations and discontinued operations, respectively.

The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax provision. Included in income tax provision for continuing operations and discontinued operations for the three months ended September 30, 2012 is a $1.6 million expense and a $0.4 million benefit, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. Included in income tax provision for continuing operations and discontinued operations for the nine months ended September 30, 2012 is a $3.3 million expense and a $3.8 million benefit, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. At September 30, 2012 and December 31, 2011, the Company has accrued $112.2 million and $111.2 million, respectively, for the payment of interest. At September 30, 2012 and December 31, 2011, the Company has accrued $2.8 million and $2.5 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. The Internal Revenue Service ("IRS") has substantially completed its audit of the Company's tax returns for the years ended December 31, 2001 through 2006. The settlement of these tax years has not yet been submitted to the Joint Committee of Taxation for approval. The IRS began its audit of the Company's tax returns for the years ended December 31, 2007 through 2009 in July 2011. The statute of limitations for the years 2001 through 2009 has been extended to December 31, 2013. Various state and local jurisdictions are currently under examination, the most significant of which are California, New York and New York City for various tax years beginning with 2005. Income taxes payable include reserves considered sufficient to pay assessments that may result from examination of prior year tax returns. Changes to reserves from period to period and differences between amounts paid, if any, upon resolution of issues raised in audits and amounts previously provided may be material. Differences between the reserves for income tax contingencies and the amounts owed by the Company are recorded in the period they become known. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by $68.9 million within twelve months of the current reporting date, of which approximately $13.3 million could decrease income tax provision, primarily due to settlements, expirations of statutes of limitations, and the reversal of deductible temporary differences that will primarily result in a corresponding decrease in net deferred tax assets. An estimate of other changes in unrecognized tax benefits, while potentially significant, cannot be made.

NOTE 3—BUSINESS COMBINATIONS

Acquisition of About, Inc.

On September 24, 2012, IAC completed its purchase of all the outstanding shares of About, Inc. (“The About Group”), an online content and reference library offering expert, quality content across 90,000 topics. The preliminary purchase price was $300 million, which was paid in cash, plus an amount equal to the estimated net working capital at closing. The financial results of The About Group will be included in IAC's consolidated financial statements, within the Search & Applications segment, beginning October 1, 2012. The estimated fair values of the assets acquired and liabilities assumed of The About Group reflected in the accompanying consolidated balance sheet at September 30, 2012 are preliminary.

The table below summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	(In thousands)
Cash and cash equivalents	$998
Other current assets	23,316
Property and equipment	14,681
Goodwill	176,127
Intangible assets	110,400
Other assets	1,613
Total assets	327,135
Current liabilities	(7,543)
Other liabilities	(3,336)
Net assets	$316,256

The purchase price was based on the expected financial performance of The About Group, not on the value of the net identifiable assets at the time of acquisition, which resulted in a significant portion of the purchase price being attributed to goodwill. The expected financial performance of The About Group reflects that it is complementary and synergistic to the existing businesses of the Company's Search & Applications segment, particularly Ask.com.

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Intangible assets are as follows:

	(In thousands)	Weighted-average Amortization Life (Years)
Indefinite-lived trade names	$37,000	Indefinite
Content	48,400	4.0
Technology	16,100	3.0
Advertiser relationships	7,400	2.0
Customer lists	1,500	3.0
Total	$110,400	3.6

The About Group's other current assets, property and equipment, other assets, current liabilities and other liabilities were reviewed and adjusted to their fair values at the date of acquisition, as necessary. The fair value of trade names was determined using a relief from royalty method. The fair value of content was determined using an excess earnings method. The fair value of developed technology was determined using replacement cost. The fair value of advertiser relationships was determined using a "with or without" method, which determines the present value of profits that would be lost without the relationships. The fair value of customer lists was determined using an excess earnings method.The valuations of the intangible assets incorporate significant unobservable inputs and require significant judgment and estimates, including the amount and timing of future cash flows and the determination of royalty and discount rates. Substantially all of the amount attributed to goodwill is tax deductible.

The Company is in the process of completing its determination of the fair values of the assets acquired and liabilities assumed and the preliminary fair values are subject to revision. These fair values are expected to be finalized in the fourth quarter of 2012.

Acquisition of Meetic

In 2009, Match acquired a 27% ownership interest in Meetic. Match accounted for this interest under the equity method of accounting through August 31, 2011. During the third quarter of 2011, Match acquired an additional 12.5 million shares of Meetic for $272.0 million in cash pursuant to a tender offer. These additional shares increased Match's voting interest and ownership interest in Meetic to 79% and 81%, respectively, resulting in Match obtaining a controlling financial interest in Meetic. Accordingly, this purchase was accounted for under the acquisition method of accounting and the financial results of Meetic are included within IAC's consolidated financial statements and the Match operating segment beginning September 1, 2011.

Pro forma financial information

The unaudited pro forma financial information in the table below summarizes the combined results of IAC, Meetic and The About Group as if the acquisition of The About Group had occurred on January 1, 2011 and the acquisition of Meetic had occurred on January 1, 2010. The pro forma financial information includes adjustments required under the acquisition method of accounting and is presented for informational purposes only and is not necessarily indicative of what the results would have been had the acquisitions occurred on the dates stated above. For the three and nine months ended September 30, 2012, pro forma adjustments reflected below include an increase of $0.6 million and a decrease of $1.9 million in amortization of intangible assets, respectively. For the three and nine months ended September 30, 2011, pro forma adjustments reflected below include increases of $6.2 million and $19.0 million in amortization of intangible assets, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Revenue	$740,086	$593,545	$2,115,866	$1,727,843
Net earnings attributable to IAC shareholders	$47,146	$83,899	$144,997	$161,890
Basic earnings per share attributable to IAC shareholders	$0.53	$0.99	$1.69	$1.84
Diluted earnings per share attributable to IAC shareholders	$0.50	$0.89	$1.56	$1.71

NOTE 4—GOODWILL AND INTANGIBLE ASSETS

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

	September 30, 2012	December 31, 2011
	(In thousands)	
Goodwill	$1,556,833	$1,358,524
Intangible assets with indefinite lives	388,031	351,488
Intangible assets with definite lives, net	103,454	26,619
Total goodwill and intangible assets, net	$2,048,318	$1,736,631

The following table presents the balance of goodwill by reporting unit, including the changes in the carrying value of goodwill, for the nine months ended September 30, 2012:

	Balance as of December 31, 2011	Additions	(Deductions)	Foreign Exchange Translation	Balance as of September 30, 2012
	(In thousands)				
IAC Search & Media	$526,444	$182,969	$(218)	$—	$709,195
Search & Applications	526,444	182,969	(218)	—	709,195
Match	667,073	13,347	(3,163)	(10,216)	667,041
HomeAdvisor	109,947	1,880	—	(383)	111,444
CityGrid Media	17,751	14,093	—	—	31,844
Local	127,698	15,973	—	(383)	143,288
Connected Ventures	8,267	—	—	—	8,267
DailyBurn	7,323	—	—	—	7,323
Media	15,590	—	—	—	15,590
Shoebuy	21,719	—	—	—	21,719
Other	21,719	—	—	—	21,719
Total	$1,358,524	$212,289	$(3,381)	$(10,599)	$1,556,833

Additions primarily relate to the acquisition of The About Group. Both the December 31, 2011 and September 30, 2012 goodwill balances include accumulated impairment losses of $916.9 million, $28.0 million and $11.6 million at IAC Search & Media, Shoebuy and Connected Ventures, respectively.

Intangible assets with indefinite lives are trade names and trademarks acquired in various acquisitions. At September 30, 2012, intangible assets with definite lives are as follows:

	Cost	Accumulated Amortization	Net	Weighted-Average Amortization Life (Years)
	(In thousands)			
Content	$48,400	$—	$48,400	4.0
Technology	38,895	(8,146)	30,749	3.0
Customer lists	22,767	(17,363)	5,404	1.2
Advertiser and supplier relationships	17,046	(6,469)	10,577	4.3
Other	13,662	(5,338)	8,324	8.3
Total	$140,770	$(37,316)	$103,454	3.7

At December 31, 2011, intangible assets with definite lives are as follows:

	Cost	Accumulated Amortization	Net	Weighted-Average Amortization Life (Years)
	(In thousands)			
Customer lists	$18,050	$(8,837)	$9,213	1.0
Technology	16,145	(3,858)	12,287	2.2
Supplier relationships	8,946	(5,298)	3,648	6.4
Other	6,063	(4,592)	1,471	3.4
Total	$49,204	$(22,585)	$26,619	2.6

Amortization of intangible assets with definite lives is computed either on a straight-line basis or based on the period in which the economic benefits of the asset will be realized. At September 30, 2012, amortization of intangible assets with definite lives for each of the next five years and thereafter is estimated to be as follows:

	(In thousands)
Remainder of 2012	$11,500
2013	38,943
2014	25,844
2015	16,551
2016	6,467
2017	1,426
Thereafter	2,723
Total	$103,454

NOTE 5—MARKETABLE SECURITIES

At September 30, 2012, current available-for-sale marketable securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Corporate debt securities	$15,592	$40	$—	$15,632
States of the U.S. and state political subdivisions	112,340	653	(2)	112,991
Total debt securities	127,932	693	(2)	128,623
Equity security	—	10,303	—	10,303
Total marketable securities	$127,932	$10,996	$(2)	$138,926

At December 31, 2011, current available-for-sale marketable securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Corporate debt securities	$48,621	$99	$(15)	$48,705
States of the U.S. and state political subdivisions	111,758	587	(22)	112,323
Total debt securities	160,379	686	(37)	161,028
Equity security	4,656	11	—	4,667
Total marketable securities	$165,035	$697	$(37)	$165,695

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 available-for-sale at September 30, 2012 are as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$55,986	$56,163
Due after one year through five years	71,946	72,460
Total	$127,932	$128,623

The following table summarizes investments in marketable debt securities (3 in total at September 30, 2012) that have been in a continuous unrealized loss position for less than twelve months:

	September 30, 2012		December 31, 2011	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)			
Corporate debt securities	$—	$—	$12,920	$(15)
States of the U.S. and state political subdivisions	5,895	(2)	11,711	(22)
Total	$5,895	$(2)	$24,631	$(37)

At September 30, 2012 and December 31, 2011, there are no investments in marketable securities that have been in a continuous unrealized loss position for twelve months or longer.

Substantially all of the Company's marketable debt securities are rated investment grade. The gross unrealized losses on the marketable debt securities relate 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 September 30, 2012.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands)			
Proceeds from maturities and sales of available-for-sale marketable securities	$40,570	$128,287	$88,347	$542,191
Gross realized gains	241	387	2,039	2,303
Gross realized losses	—	—	—	(18)

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

The specific-identification method is used to determine the cost of securities sold and the amount of unrealized gains and losses reclassified out of accumulated other comprehensive income into earnings. Unrealized gains, net of tax, reclassified out of accumulated other comprehensive income (loss) into other (expense) income, net related to the maturities and sales of available-for-sale securities for the three and nine months ended September 30, 2012, were less than $0.1 million and $0.9 million, respectively. Unrealized gains, net of tax, reclassified out of accumulated other comprehensive income (loss) into other (expense) income, net related to the maturities and sales of available-for-sale securities for the three and nine months ended September 30, 2011, were $0.6 million and $2.0 million, respectively.

NOTE 6—FAIR VALUE MEASUREMENTS

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

- Level 1: Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.
- Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are derived principally from or corroborated by observable market data. The fair values of the Company's Level 2 financial assets are primarily obtained from observable market prices for identical underlying securities that may not be actively traded. Certain of these securities may have different market prices from multiple market data sources, in which case an average market price is used.
- Level 3: Unobservable inputs for which there is little or no market data and require the Company to develop its own assumptions, based on the best information available in the circumstances, about the assumptions market participants would use in pricing the assets or liabilities. See below for a discussion of fair value measurements made using Level 3 inputs.

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis:

	September 30, 2012 Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
	(In thousands)			
Assets:				
Cash equivalents:				
Money market funds	$184,449	$—	$—	$184,449
Commercial paper	—	84,443	—	84,443
Time deposits	—	4,400	—	4,400
Marketable securities:				
Corporate debt securities	—	15,632	—	15,632
States of the U.S. and state political subdivisions	—	112,991	—	112,991
Equity security	10,303	—	—	10,303
Long-term investments:				
Auction rate security	—	—	7,330	7,330
Marketable equity securities	66,078	—	—	66,078
Total	$260,830	$217,466	$7,330	$485,626

	December 31, 2011 Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
	(In thousands)			
Assets:				
Cash equivalents:				
Treasury and government agency money market funds	$321,314	$—	$—	$321,314
Commercial paper	—	237,942	—	237,942
Time deposits	—	4,750	—	4,750
Marketable securities:				
Corporate debt securities	—	48,705	—	48,705
States of the U.S. and state political subdivisions	—	112,323	—	112,323
Equity security	4,667	—	—	4,667
Long-term investments:				
Auction rate security	—	—	5,870	5,870
Marketable equity securities	74,691	—	—	74,691
Total	$400,672	$403,720	$5,870	$810,262
Liabilities:				
Contingent consideration arrangement	$—	$—	$(10,000)	$(10,000)

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

	Three Months Ended September 30,		
	2012	2011	
	Auction Rate Security	Auction Rate Security	Contingent Consideration Arrangement
	(In thousands)		
Balance at July 1	$6,730	$8,680	$(10,000)
Total net gains (losses) (realized and unrealized):			