IAC/INTERACTIVECORP
Form 10-Q
July 31, 2015

As filed with the Securities and Exchange Commission on July 31, 2015

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 June 30, 2015

Or

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

For the transition period from__________to__________

Commission File No. 0-20570

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

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

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

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

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

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

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

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

As of July 24, 2015, the following shares of the registrant's common stock were outstanding:

Common Stock	77,130,396
Class B Common Stock	5,789,499

Total outstanding Common Stock	82,919,895

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of July 24, 2015 was $6,259,982,574. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

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

	June 30, 2015	December 31, 2014
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$656,409	$990,405
Marketable securities	233,523	160,648
Accounts receivable, net of allowance of $15,730 and $12,437, respectively	223,106	236,086
Other current assets	209,724	166,742
Total current assets	1,322,762	1,553,881
Property and equipment, net of accumulated depreciation and amortization of $294,400 and $279,534, respectively	297,158	302,459
Goodwill	1,778,830	1,754,926
Intangible assets, net of accumulated amortization of $116,626 and $98,937, respectively	472,082	491,936
Long-term investments	131,385	114,983
Other non-current assets	72,841	56,693
TOTAL ASSETS	$4,075,058	$4,274,878
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Current portion of long-term debt	$80,000	$—
Accounts payable, trade	79,434	81,163
Deferred revenue	232,673	194,988
Accrued expenses and other current liabilities	322,750	397,803
Total current liabilities	714,857	673,954
Long-term debt, net of current portion	1,000,000	1,080,000
Income taxes payable	24,768	32,635
Deferred income taxes	432,688	409,529
Other long-term liabilities	59,182	45,191
Redeemable noncontrolling interests	28,177	40,427
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Common stock $.001 par value; authorized 1,600,000,000 shares; issued 253,641,102 and 252,170,058 shares, respectively and outstanding 76,871,835 and 78,356,057 shares, respectively	254	252
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	11,452,662	11,415,617

Retained earnings	354,099	325,118
Accumulated other comprehensive loss	(130,295)	(87,700)
Treasury stock 187,137,267 and 184,182,001 shares, respectively	(9,861,350)	(9,661,350)
Total IAC shareholders' equity	1,815,386	1,991,953
Noncontrolling interests	—	1,189
Total shareholders' equity	1,815,386	1,993,142
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$4,075,058	$4,274,878

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

IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Revenue	$771,132	$756,315	$1,543,644	$1,496,562
Operating costs and expenses:				
Cost of revenue (exclusive of depreciation shown separately below)	183,276	210,730	374,829	419,964
Selling and marketing expense	319,397	272,490	677,063	571,089
General and administrative expense	129,349	109,897	244,143	204,986
Product development expense	46,430	38,845	91,687	77,661
Depreciation	15,500	15,257	31,068	30,075
Amortization of intangibles	14,411	13,406	26,966	25,385
Total operating costs and expenses	708,363	660,625	1,445,756	1,329,160
Operating income	62,769	95,690	97,888	167,402
Interest expense	(15,214)	(14,046)	(29,278)	(28,110)
Other (expense) income, net	(1,638)	(69,750)	5,350	(71,708)
Earnings from continuing operations before income taxes	45,917	11,894	73,960	67,584
Income tax benefit (provision)	11,968	(29,889)	5,788	(51,274)
Earnings (loss) from continuing operations	57,885	(17,995)	79,748	16,310
Loss from discontinued operations, net of tax	(153)	(868)	(28)	(1,682)
Net earnings (loss)	57,732	(18,863)	79,720	14,628
Net loss attributable to noncontrolling interests	1,573	867	5,990	3,261
Net earnings (loss) attributable to IAC shareholders	$59,305	$(17,996)	$85,710	$17,889
Per share information attributable to IAC shareholders:				
Basic earnings (loss) per share from continuing operations	$0.72	$(0.21)	$1.03	$0.24
Diluted earnings (loss) per share from continuing operations	$0.68	$(0.21)	$0.98	$0.22
Basic earnings (loss) per share	$0.72	$(0.22)	$1.03	$0.22
Diluted earnings (loss) per share	$0.68	$(0.22)	$0.97	$0.20
Dividends declared per share	$0.34	$0.24	$0.68	$0.48
Stock-based compensation expense by function:				
Cost of revenue	$294	$459	$539	$451
Selling and marketing expense	3,119	657	4,842	853
General and administrative expense	20,039	13,707	34,637	21,659
Product development expense	2,497	1,729	4,842	3,202
Total stock-based compensation expense	$25,949	$16,552	$44,860	$26,165

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,	
	2015	2014	2015	2014
	(In thousands)			
Net earnings (loss)	$57,732	$(18,863)	$79,720	$14,628
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment	8,613	(187)	(48,001)	5,190
Change in unrealized gains and losses of available-for-sale securities (net of tax benefits of $126 and $182 for the three and six months ended June 30, 2015, respectively, and net of tax benefits of $865 and $1,438 for the three and six months ended June 30, 2014, respectively)	3,615	(2,139)	4,249	(2,250)
Total other comprehensive income (loss), net of tax	12,228	(2,326)	(43,752)	2,940
Comprehensive income (loss)	69,960	(21,189)	35,968	17,568
Comprehensive loss attributable to noncontrolling interests	2,323	984	7,147	3,461
Comprehensive income (loss) attributable to IAC shareholders	$72,283	$(20,205)	$43,115	$21,029

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

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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	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total IAC Shareholders' Equity	No Int
	(In thousands)										
Balance as of December 31, 2014	$40,427	$252	252,170	$16	16,157	$11,415,617	$325,118	$(87,700)	$(9,661,350)	$1,991,953	$1,1
Net (loss) earnings for the six months ended June 30, 2015	(5,990)	—	—	—	—	—	85,710	—	—	85,710	—
Other comprehensive loss, net of tax	(1,157)	—	—	—	—	—	—	(42,595)	—	(42,595)	—
Stock-based compensation expense	3,509	—	—	—	—	38,189	—	—	—	38,189	—
Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes	—	2	1,471	—	—	(20,668)	—	—	—	(20,666)	—
Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other	—	—	—	—	—	24,636	—	—	—	24,636	—
Dividends	—	—	—	—	—	—	(56,729)	—	—	(56,729)	—
Purchase of treasury stock	—	—	—	—	—	—	—	—	(200,000)	(200,000)	—
Purchase of redeemable noncontrolling	(15,338)	—	—	—	—	—	—	—	—	—	—

interests											
Adjustment of redeemable noncontrolling interests to fair value	5,320	—	—	—	—	(5,320)	—	—	—	(5,320)	—
Transfer from noncontrolling interests to redeemable noncontrolling interests	1,189	—	—	—	—	—	—	—	—	—	(1,1
Other	217	—	—	—	—	208	—	—	—	208	—
Balance as of June 30, 2015	$28,177	$254	253,641	$16	16,157	$11,452,662	$354,099	$(130,295)	$(9,861,350)	$1,815,386	$—

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

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IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2015	2014
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings	$79,720	$14,628
Less: loss from discontinued operations, net of tax	(28)	(1,682)
Earnings from continuing operations	79,748	16,310
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Stock-based compensation expense	44,860	26,165
Depreciation	31,068	30,075
Amortization of intangibles	26,966	25,385
Excess tax benefits from stock-based awards	(36,465)	(32,889)
Deferred income taxes	7,260	5,849
Impairment of long-term investments	500	64,281
Equity in losses of unconsolidated affiliates	477	8,785
Acquisition-related contingent consideration fair value adjustments	(16,946)	500
Other adjustments, net	8,369	5,362
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	2,710	(5,718)
Other assets	(6,458)	(19,238)
Accounts payable and other current liabilities	(33,231)	(31,242)
Income taxes payable	(63,304)	29,299
Deferred revenue	40,407	25,851
Other changes in assets and liabilities, net	(182)	(4)
Net cash provided by operating activities attributable to continuing operations	85,779	148,771
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(43,286)	(103,380)
Capital expenditures	(26,816)	(26,557)
Proceeds from maturities and sales of marketable debt securities	14,613	998
Purchases of marketable debt securities	(93,134)	(78,380)
Purchases of long-term investments	(12,840)	(14,701)
Other, net	8,599	2,187
Net cash used in investing activities attributable to continuing operations	(152,864)	(219,833)
Cash flows from financing activities attributable to continuing operations:		
Purchase of treasury stock	(200,000)	—
Dividends	(56,729)	(40,086)
Issuance of common stock, net of withholding taxes	(20,656)	(13,823)
Excess tax benefits from stock-based awards	36,465	32,889
Purchase of noncontrolling interests	(15,338)	(30,000)
Funds returned from escrow for Meetic tender offer	—	12,354
Acquisition-related contingent consideration payments	(5,705)	(7,630)
Other, net	430	(141)
Net cash used in financing activities attributable to continuing operations	(261,533)	(46,437)
Total cash used in continuing operations	(328,618)	(117,499)
Total cash used in discontinued operations	(243)	(157)

Effect of exchange rate changes on cash and cash equivalents	(5,135)	4,538
Net decrease in cash and cash equivalents	(333,996)	(113,118)
Cash and cash equivalents at beginning of period	990,405	1,100,444
Cash and cash equivalents at end of period	$656,409	$987,326

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

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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. The Company is organized into four segments: The Match Group, which consists of dating, education and fitness businesses with brands such as Match, OkCupid, Tinder, The Princeton Review and DailyBurn; Search & Applications, which includes brands such as About.com, Ask.com, Dictionary.com and Investopedia; Media, which includes businesses such as Vimeo, Electus, The Daily Beast and CollegeHumor; and eCommerce, which includes HomeAdvisor and ShoeBuy. IAC's brands and products are among the most recognized in the world, reaching users in over 200 countries.

On June 25, 2015, the Company announced the intent to pursue an initial public offering ("IPO") of less than 20% of the common stock of The Match Group. The IPO is expected to be completed during the fourth quarter of 2015.

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

Basis of Presentation

The Company prepares its consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP").

Basis of Consolidation and Accounting for Investments

The consolidated financial statements include the accounts of the Company, all entities that are wholly-owned by the Company and all entities in which the Company has a controlling financial interest. Intercompany transactions and accounts have been eliminated.

Investments in the common stock or in-substance common stock of entities in which the Company has the ability to exercise significant influence over the operating and financial matters of the investee, but does not have a controlling financial interest, are accounted for using the equity method 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 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 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 the 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, 2014.

Accounting Estimates

The preparation of consolidated financial statements in accordance with 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 liabilities for uncertain tax positions; 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.

IAC/INTERACTIVECORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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, 2015, revenue earned from Google is $308.2 million and $647.8 million, respectively. For the three and six months ended June 30, 2014, revenue earned from Google is $349.5 million and $704.6 million, respectively. This revenue is earned by the businesses comprising the Search & Applications segment. Accounts receivable related to revenue earned from Google totaled $108.3 million and $118.7 million at June 30, 2015 and December 31, 2014, respectively.
Recent Accounting Pronouncement
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. In July 2015, the FASB decided to defer the effective date for annual reporting periods beginning after December 15, 2017. Early adoption is permitted beginning on the original effective date of December 15, 2016. Upon adoption, ASU No. 2014-09 may either be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently evaluating the new guidance and has not yet determined whether the adoption of the new standard will have a material impact on its consolidated financial statements or the method and timing of adoption.
Reclassifications
Certain prior year amounts have been reclassified to conform to the current year presentation.
NOTE 2—INCOME TAXES
At the end of each interim period, the Company makes its best estimate of the annual expected effective income tax rate and applies that rate to its ordinary year-to-date earnings or loss. The income tax provision or benefit related to significant, unusual, or extraordinary items, if applicable, that will be separately reported or reported net of their related tax effects are individually computed and recognized in the interim period in which 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 the liabilities for uncertain tax positions 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 realization 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, 2015, the Company recorded an income tax benefit for continuing operations of $12.0 million and $5.8 million, respectively. The income tax benefit for the three and six months ended June 30, 2015 are due primarily to the realization of certain deferred tax assets, a reduction in tax reserves and related interest due to the expiration of statutes of limitations, and the non-taxable gain on contingent consideration fair value adjustments in the current year period, partially offset by state taxes. 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

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

investments, interest on reserves for income tax contingencies, and state taxes, 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 for the three and six months ended June 30, 2015, is a $0.1 million benefit and a $0.2 million benefit, respectively, net of related deferred taxes, for interest on unrecognized tax benefits. At June 30, 2015 and December 31, 2014, the Company has accrued $2.2 million and $2.8 million, respectively, for the payment of interest. At June 30, 2015 and December 31, 2014, the Company has accrued $2.3 million and $2.9 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 is currently auditing the Company's federal income tax returns for the years ended December 31, 2010 through 2012. Various other jurisdictions are open to examination for various tax years beginning with 2009. 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 uncertain tax positions and the amounts owed by the Company are recorded in the period they become known.

At June 30, 2015 and December 31, 2014, unrecognized tax benefits, including interest and penalties, are $25.9 million and $33.2 million, respectively. If unrecognized tax benefits at June 30, 2015 are subsequently recognized, $23.9 million, net of related deferred tax assets and interest, would reduce income tax provision for continuing operations. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by $3.4 million within twelve months of June 30, 2015 primarily due to settlements and expiration of statutes of limitations.

NOTE 3—MARKETABLE SECURITIES

At June 30, 2015, current available-for-sale marketable securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Corporate debt securities	$232,766	$151	$—	$232,917
Equity security	97	509	—	606
Total marketable securities	$232,863	$660	$—	$233,523

At December 31, 2014, current available-for-sale marketable securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Corporate debt securities	$159,418	$34	$(255)	$159,197
Equity security	98	1,353	—	1,451
Total marketable securities	$159,516	$1,387	$(255)	$160,648

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

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

The contractual maturities of debt securities classified as current available-for-sale at June 30, 2015 are as follows:

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$95,946	$95,979
Due after one year through five years	136,820	136,938
Total	$232,766	$232,917

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,	
	2015	2014	2015	2014
	(In thousands)			
Proceeds from maturities and sales of available-for-sale marketable securities	$8,563	$3,462	$14,613	$3,462
Gross realized gains	5	2,299	5	2,299

There were no gross realized losses from the maturities and sales of available-for-sale marketable securities for the three and six months ended June 30, 2015 and 2014. However, during the second quarter of 2015, the Company recognized $0.3 million in losses that were deemed to be other-than-temporary related to various corporate debt securities that are expected to be sold by the Company in the third quarter of 2015, in part, to fund its cash needs related to The Match Group's acquisition of PlentyOfFish for $575 million.

Gross realized gains from the maturities and sales of available-for-sale marketable securities and losses that were deemed to be other-than-temporary 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 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, which 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 financial instruments that are measured at fair value on a recurring basis:

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

	June 30, 2015			
	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	$207,014	$—	$—	$207,014
Commercial paper	—	76,789	—	76,789