Notes for IAC’s Q4 2012 Quarterly Earnings Call

Set forth below are IAC management’s notes for its prepared remarks for IAC’s Q4 2012 conference call held on February 6, 2013. Actual remarks made on the call may vary. A replay of the conference call will be available on IAC’s website at http://ir.iac.com/results.cfm until 7:30 PM on February 20, 2013.

Safe Harbor

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**Intro – Barry Diller**

I’ve always thought it poor form to take up most of the time on these calls with formal remarks, and we’ve consistently shortened that portion to give more time for questions. However, there are times when we ought to more fully explain ourselves, and, after our last call, when we reported excellent results and a positive future outlook, our stock went into what I thought was an inexplicable tail spin. So, today we’re also going to give another positive financial report, but we are going to take some additional time to talk fully about the outlook for each of our key businesses in the hope that it gives a real and substantive basis as to why we’re so optimistic about our future….And, if our stock again goes into an inexplicable tailspin, you can then blame the messenger. Greg….

**Consolidated – Greg Blatt**

Thanks, Barry.

We just finished our third consecutive year of outstanding growth. We expect that to continue again in 2013. We’re excited about the business and we’ve been looking forward to talking to you all about it. It feels like a longer stretch than usual between calls. Given that, I’m going to spend a lot more time than usual talking through each segment, and then Jeff will get a little more granular on the associated financial information, Barry will talk about capital, and then if anyone’s still out there we’ll take your questions.

**Search & Applications – Greg Blatt**

Let’s start with Search & Applications. We had a great quarter, with Q4 OIBA and revenue up 63% and 30%, respectively. Pro forma for the About acquisition, OIBA and revenue were up 40% and 20%, respectively, and for 2013 we’re expecting solid double digit revenue and strong double digit OIBA growth, in each case pro forma for About, which is seriously exceeding expectations. On an as reported basis, obviously, the numbers will be even stronger. To paraphrase Mark Twain, the rumors of this business’ death have been greatly exaggerated. Search & Applications has a solid foundation and is looking ahead to strong growth for the foreseeable future.

Now let’s look at some of the granular issues that people have been talking about this quarter, and then I’ll talk a little about long-term outlook.
Policy Changes

As all of you know, at the beginning of Q4, Google changed its advertising policies. The primary impact to our business relates to the marketing of our Ask.com product on Google. The policy changes reduced both click-through rates from our marketing and our revenue per query. As we tried to digest the impact of these changes, we pulled back on marketing, which had a larger effect on revenue than OIBA as the online spend cuts hit the least profitable marketing dollars, and because offline spend tends to have a delayed payback. We’ve now reconfigured our marketing program around the policy changes, and we’re confident we can begin to build back up our spend and revenue levels at increasingly efficient margins through 2013, with the negative impact most heavily felt in Q1. I also think it’s important to point out that this area only represents around 12% of the total contribution to the segment. So while marketing Ask on Google is important to the business, and these policy changes do affect us, it’s certainly not determinative.

Additionally, we’ve recently agreed with Google on a new set of guidelines for our applications business. We actually reached out to Google this past summer to proactively try to deal with a number of practices that had arisen in the industry that we weren’t engaging in. While I wouldn’t say the new policies are the exact ones we would have implemented on our own, we worked hard with Google on crafting them and we’re supportive of the efforts to make sure that practices are pro-consumer and benefit everyone long term. Given our strong relationship with Google and the comparatively high resources we put into product development, engineering, partnerships, marketing systems, and our Ask brand, we feel even better about our competitive position following the changes than we did before.

Overall, these policy changes are going to dent our 2013 results a little as against what they would have been, but those results will still be strong, and we think overall they strengthen the long-term prospects of the business, laying foundation for even higher growth in 2014.

Let me also touch quickly on what we think are a few misconceptions that have been causing some noise this quarter.

Arbitrage

First, there have been allegations that we’re engaged in “arbitrage.” But the reality is we market our Search & Applications businesses in the exact same way we market every other business we have, both online and offline. Frankly, in the same way every business does. If we can
make more revenue from marketing our products than it costs to do so, we market them. It’s the same as for Match, HomeAdvisor and everything else. And it’s the same on Google as it is on Bing or on television. There is absolutely nothing unique about our marketing approach to Search & Applications. And, I think most determinatively, Google has a policy that clearly defines arbitrage and clearly prohibits it, we are in complete compliance with that policy, and we continue to be a big advertiser on Google. So under the only definition that matters – Google’s – we’re not engaged in arbitrage.

**Competition**

Questions have also been raised about the impact of increased competition in marketing our search products, mostly because of potential new entrants into the market. Again, we think this reflects a misunderstanding of our business. We market our products on a vertical-by-vertical basis. When we’re buying keywords for a health-related page we compete with advertisers in the medical category. When we buy keywords for a car-related product we compete with car advertisers. When we buy marketing for a scrapbooking application we compete with scrapbooking marketers. There is heavy competition in all our verticals, and that competition is among different groups from vertical to vertical. New advertisers are coming onto Google and Bing every day in all these verticals. That’s generally what drives up CPCs over time. It would be very difficult, if not impossible, for any single entrant, or even a series of entrants, to meaningfully impact that general trajectory of more and more ad dollars coming into the system, especially across multiple verticals. We’ve been seeing this trajectory since the inception of search marketing, and we of course benefit from the rising CPCs on the other side. Specifically, we’ve seen no meaningful impact on our business from any particular “entrant” into this area, either recently or at any other time.

**Browsers**

Another concern that has been raised is that browser changes are making life difficult for our Applications businesses. On the one hand, that is true. On the other hand, it’s no more true today than it’s ever been. Over the eight years we’ve operated this business, we’ve tackled every browser change as it’s come. This has meant adapting to deal with multiple platforms, the rise of Firefox and Chrome, their rapid release schedules, as well as major updates to Internet Explorer, each of which have presented multiple challenges to our business. Typically, there is an initial impact from a given set of changes, and then we adapt our products and services accordingly and the adaptations help us claw back whatever impact we saw at the
beginning. This is why we’ve always said this business has the potential to be a little choppy quarter to quarter. Despite all this, we’ve grown this business four-fold since we acquired it in 2005. Frankly, it’s an area where we really do think past tends to be prologue, and believe our ability to navigate the dynamic landscape in which we operate is a competitive advantage. We have teams of engineers who spend all their time adapting our products to the latest browsers, the latest operating systems, etc., and despite the continuing complexity and challenges of these landscapes, we continue to grow our distribution meaningfully.

**Questionable Value**

Next we’ve heard that our applications are of questionable value to users, and they therefore face an existential threat. But value in this context is, of course, subjective. This business was built on the back of a product that let you put smiley faces into your instant messaging. From some perspectives, that product might be of questionable value. But the millions of people who downloaded it obviously felt differently, and that product alone generated over $120 million of revenue. There is a reason we refer to these products as digital snacks. An application that allows you to play video games from the 80s is highly engaging to some, and of lesser value to others. But while these products may not change the world, they cost our tens of millions of users nothing and yet provide them some enjoyment and convenience, and as long as that continues to be the case, we think they’ll continue to flourish.

**SEMrush Data**

Lastly, there is what, to us, is a somewhat new phenomenon called “trading the SEMrush data.” For those of you who don’t know, SEMrush tracks various keyword activities, and some people have started using that as a proxy for the performance of our Search & Applications business. Anyone who did that in Q4 would have concluded that our Search & Applications business was going to be down meaningfully. But it wasn’t. We had a great Q4. This is principally for two reasons. First, as we said, the activity it tracks makes up a relatively small part of the overall contribution to the segment, and second, it doesn’t take into account the fact that volatility in keyword volume tends to happen in the test and low ROI keywords, so that even with respect to the activity it does track, it doesn’t highly correlate to profit growth. The reality is, the SEMrush data is a pretty poor proxy for the business.
Future Growth

Stepping back for a second and looking at the segment longer term, we think the market for our products and services is robust. Though there is data that would indicate desktop search will continue to grow (desktop sales still predicted to increase for a while, hours spent on desktops expected to increase over the next few years), we conservatively expect a flattening desktop search market. We believe that still provides us with a lot of runway. We grow primarily through new product development, new distribution partnerships, and marketing efforts. In other words, our growth isn’t highly correlated to that of the industry. From 2010 to 2012, our queries grew 80%, dramatically higher than the overall market. And because our global share is still estimated at well under 5%, there is no reason to believe that our growth should be meaningfully impacted by slowdowns in desktop search growth overall in the foreseeable future.

Moreover, we see big opportunities in mobile and tablets over time, where our efforts are really just beginning. Mobile is now making up more than 7% of Ask queries, up meaningfully over last year. That’s under penetration versus the market, but the core Ask customer tends to be a later adopter of new technologies, so it’s not very surprising. Moreover, our growth tends to be driven by marketing and distribution efforts, which to date have been minimal in this area. But while the mobile economics are still subpar, they are improving, and we’re seeing opportunities opening up for distribution, and we’re jumping in. In addition, About’s mobile page views now represent approximately 20% of total page views and Dictionary’s about 40% of total page views. We know that the more content-rich our pages, the better their opportunities for mobile distribution, and that’s already the direction we’re heading in strategically. Finally, Dictionary is making real progress in monetizing its applications on a direct-pay basis, and while the numbers are small in absolute terms, the learning is important in terms of our broader applications business.

Wrap Up

To wrap up, as I mentioned at the outset, we’re expecting strong 2013 results, and we feel confident longer term. Let me just recap the main reasons why:

1. We’ve got a strong pipeline of proprietary applications and the distribution business is strong. For example, we just renewed our partnerships with both Symantec and Oracle two of the premier partners in the business.
2. For the first time in years the Ask.com direct domain business is growing meaningfully, and we’ve seen the increasing resonance of the brand across multiple channels.

3. The About transaction is exceeding expectations and showing that we can leverage our competencies across multiple properties.

4. The market is large, we’re a small part of it, and we see opportunities in mobile opening up, and

5. Google has just implemented the most sweeping changes to its policies governing our businesses in a decade, the changes have us and Google totally aligned, and we’re confident these changes leave us in a strengthened competitive position.

The growth rates will slow from the meteor ride we were on in 2011 and 2012, but we’ve been saying that would happen since the ride started. The point is this continues to be a great business with a solid foundation, and we’re confident this segment should yield double digit growth for the foreseeable future.

**Match – Greg Blatt**

Now to Match, which we’re also feeling pretty good about. Q4 came in with 35% OIBA growth and 16% revenue growth, and looking ahead to 2013 we think we’re going to see high double digit OIBA growth and low double digit revenue growth for the full year.

**Core**

First, let’s talk about Core, which is our U.S. Match.com, Chemistry and People Media businesses. Core PMC growth rates increased slightly in Q4 and looking at 2013 we expect Core PMC growth to begin to increase in Q2, rebounding to the low teens by Q3. This is driven primarily by strong conversion and efficiency gains. Last year we focused primarily on events and games until Q4, and it’s rewarding to see that our ecosystem continues to be highly responsive to product improvements.

Despite the fact that events didn’t pack the immediate customer acquisition punch we were hoping for, they’re really hitting their stride now. We launched in June, and already we’ve put on over 1600 events in 80 markets with approximately 150,000 people attending. In January we had approximately 350 events and we’re anticipating 4 to 5 thousand events in 2013. We’re now starting to take margin on certain events, which drives up the revenue per user, but more
importantly the events are starting to have real impact on category and brand perception. After only half a year, approximately a third of U.S. singles are now aware of the fact that Match offers events, and 67% of singles say that these events make them more likely to do online dating. Of particular note, 15% of people who previously said they were not open to online dating say they are open to it as a result of events. This is very meaningful long-term to category expansion and competitive differentiation for Match.

**Developing**

Developing, which is everything but Core and Meetic, bottomed out in Q4, but we’re expecting growth in PMC and revenue throughout 2013, starting low but coming in for the full year at double digit levels. This growth is driven by strong gains at OkCupid, which by year’s end will have more paying subscribers than all but 3 of our 29 brands included in Core, and by Canada.

**Meetic**

As for Meetic, there’s not much to say that hasn’t already been said. We accomplished our objective for 2012, which was to meaningfully increase conversion and marketing efficiency and reverse subscriber declines, all while holding profit essentially flat. Now we head into 2013 with expectations for solid PMC, revenue and profit growth. It’s really a tremendous turnaround from what was, at the time of purchase, a suffering asset. I also think Meetic is yet another nice demonstration that this category can succeed even in tough economic times, which Match has demonstrated previously in the U.S.

So for the first time, 2013 should see solid revenue and PMC growth in each of Core, Developing and Meetic.

Now let’s look longer term, where again we’re very bullish. Let’s discuss market fundamentals first.

**Domestic Outlook**

Our domestic market is expanding. There are three secular trends in our favor: a) a growing population, b) increasing percentage of the population being single, and c) stigma against online dating continuing to decline. I’m going to give you some numbers, and like any data cobbled together like this, it’s all a little soft, but directionally very sound. Currently in the U.S., there are about 100 million single people, and about 50% of them say they are open to online dating. By 2017 the single population is expected to be 112 million people, and we conservatively expect
somewhere between 55% and 60% of them to be open to online dating. This means an expansion of our addressable market from around 51 million to between 62 to 67 million, or an increase of 21 to 31% over the next five years. Today, we’re still reaching a relatively small percentage of the addressable market and we expect that market to expand over the coming years.

A big part of our strategy for domestic growth lies in our portfolio approach. We think it will yield meaningful benefits over the coming years through pricing optimization and lowering the cost of customer acquisition across our various services.

We know that there are people in this category willing to pay a lot, some willing to pay a little, and some not willing to pay at all. Historically, Match.com offered essentially a set price, which meant we were undercharging those users who were willing to pay more and losing altogether the customers who weren’t willing to pay that much. Now, we’re able to move above the set price with a variety of add-ons and packages, and move below the fixed price by moving non-converting registrations into lower priced brands. Simultaneously, people coming in through the lower priced brands are increasingly being offered, and taking, additional paid features and services.

As a result, we’re starting to look at every registration, no matter which entry point it comes in through, as a potential registration for all our other services. Because our lower priced products acquire a large number of users at little or no marketing expense, this lowers the cost of customer acquisition for the higher priced brands as we more effectively figure out ways to increase the optimal matching of user to specific service. OkCupid alone, with zero cost of acquisition, provides us with free access to millions of online daters, and we’re just starting to offer those daters the OkCupid subscription product, access to events through Match.com subscriptions, and paid add-ons like OkCupid’s new Crazy Blind Date offering, all without negatively impacting the traditional OkCupid experience. Additionally, over the last year we have been investing in building a variety of new products, all of which have either just launched or are about to launch. These include the mobile app, Tinder, that’s getting a lot of traction, as well as Kiss.com (our re-launch of Singlesnet), Tallygram (a Facebook exploration engine recently launched), Combosaurus (an interest search/matching engine released to the public last week) and Ravel (a photo based dating application that is getting ready to launch). We invested heavily last year in developing all these products that are only now hitting the market. Some will work. Some won’t. But given that we only need to acquire a customer once in order
to market our various products to them, this expansion in low-cost acquisition vehicles should drive meaningful COA efficiencies over the coming years in a way that no one else can come close to rivaling.

And the portfolio approach also helps expand the category. Many first time entrants into the category come in through the lower priced products, whether ours or those of our competitors. Rather than cannibalize our monetization, these products help expand our user base. From 2010 through 2012, despite the fact that this was a period of proliferation of low and no priced dating alternatives (like OkCupid), we added 590,000 Core subscribers. During the preceding three years, we only added 66,000 Core subscribers. In other words, during the three years of intensive lower cost competition we added 9 times more subscribers than we did during the prior three-year period.

The key is that once people have embraced the idea of meeting online, they become increasingly willing to pay for value differentiation. Through features like events and games, Match.com is becoming the clear gold standard of online dating. Those people who want the most features and functionalities, and who want to be in the higher income bracket and more serious community, are therefore looking to Match. Accordingly, as the base of the category pyramid broadens, there are more and more people migrating up to the top, a space increasingly occupied by Match.com.

For the last few years we’ve been gathering and creating these assets, but only now, with Sam Yagan, co-founder of OkCupid, entrenched as fulltime CEO of the portfolio, are we starting to operationalize the potential we’ve been amassing. We think it will be a powerful approach.

**European Outlook**

As for Europe, we expect it to follow a similar pattern as North America, though we’re behind in terms of collecting a portfolio of assets. The recent acquisition of Twoo, a global social discovery network based in Belgium, is really the first meaningful step in that direction. It’s doing almost 60,000 registrations every day, up about 30% from just December, with zero cost of acquisition. We’re going to learn how to drive some of the registrations to our premium priced products, and we’re going to figure out ways to directly monetize some portion of the others. Lots of opportunity here.
Rest of World Outlook

And the rest of the world also holds real untapped possibilities. We think a portfolio approach is going to be necessary in these geographies, too, though unlike the U.S. it probably won’t be the pure subscription product that leads the way. To date, though, that’s really the only business model we’ve been playing with. But that’s now changing. With the acquisition of Twoo, the many services being developed through our Chinese partnership, our existing subscription services and some of the new services we’re launching in North America, coupled with the inexorable growth in rest of world economies and facilitation of easier payment means over time, we feel confident about the global growth opportunities. Accordingly, while we don’t expect huge near-term financial contribution outside of North America and Europe, longer term we think we’re very well positioned to turn those geos into strong growth contributors.

Wrap Up

At the risk of being repetitive, let me summarize the factors which make us so excited about this business:

1. An expanding domestic market which is still under-penetrated;
2. A portfolio of domestic brands – desktop and mobile -- which will continue to bring more people into the category and lower our cost of acquisition;
3. A strengthening category leadership position of our Match.com brand;
4. Improving monetization of our lower cost brands;
5. Momentum in Meetic;
6. Opportunities just now opening up in the rest of the world; and
7. A proven ability to leverage successes and competencies across multiple product lines and multiple geographies.

As I said earlier, we see strong performance in this segment in 2013, and we see solid growth in this business for a long time to come. We’re now signing up approximately 1 million new global users every week. That’s a huge number. But only about 7% of them are paying us. Yet we continue to get better at providing products that our users are willing to pay for, and to optimize the prices they pay. We think people are going to keep meeting online for a long, long time, and we think we’re clearly the most strongly positioned to continue to capitalize on that trend, worldwide.
Local, Media and Other – Greg Blatt

I’m going to hit the remaining segments quickly.

In Local, HomeAdvisor has completed its re-brand, is now running television advertising, and we’re excited about its prospects. We think growth will accelerate throughout the year. CityGrid continues to have asset value, but coming out of its restructuring in Q4 it will take some time to re-gain traction to the point where it is making meaningful contribution.

In Media, we’ve completed the restructuring at Newsweek/Daily Beast, Vimeo continues its great growth, Electus keeps turning out more and more great product, and Daily Burn is starting to get some traction. Finally, the recent acquisition of Tutor.com is something we’re really excited about. For a relatively modest price, we bought an asset that has huge upside potential, and we think we possess the specific competencies required to realize that potential. The overall takeaway here is that there is both upside opportunity in this collection of assets, and operating and investment discipline.

Consolidated Wrap Up

Stepping back, we’re very excited about where IAC stands, well balanced for the near-term, expecting a fourth consecutive year of outstanding growth, and the long-term, with big, untapped market opportunities in our big businesses and numerous earlier stage businesses poised to break out.

With that, I’ll turn it to Jeff?
Financial Review – Jeff Kip

Consolidated Historical

Thanks, Greg. I’m now going to take everyone through some key points on our 4th quarter results and our full year and 1st quarter 2013 expectations.

- In the 4th quarter of 2012, before restructuring charges, we grew consolidated OIBA 48% to $134.9 million and consolidated revenues 28% to $765 million.
  o Including the About business and News_Beast pro forma, OIBA grew 39% and revenues 17% versus the prior year. In order to fully capture our year-over-year operating results and progress, we are going to talk about our results both on an “as reported” and a “pro forma for About and News_Beast” basis over the next few quarters.
  o OIBA margin in the quarter expanded year-over-year 240 basis points excluding restructuring charges; including restructuring charges, OIBA margin still expanded 90 and 100 basis points, respectively, on an as reported and on a pro forma basis – our 8th consecutive quarter of OIBA margin expansion.
  o The restructuring charges in the 4th quarter consisted of $(7.0) million associated with the closure of the Newsweek print magazine, $(1.8) million at CityGrid, and $(2.8) million associated with the shutdown of Hatch Labs and the Pronto business within Search & Applications.

- It is worth noting that our reported adjusted EPS is flat year-over-year, however there are two points to recognize here:
  o First, that the number includes restructuring costs, and
  o Secondly, our tax rate was 2500 basis points – 25% -- higher than our rates in Q411 due to the release of old acquisition-related reserves in the year-ago period.

Without those differences, the adjusted EPS growth would approximate the OIBA growth rate.

- This wraps up a year in 2012 where IAC delivered 44% overall OIBA growth on 36% revenue growth – the third straight year of this level of OIBA growth or higher for IAC.
Let me now give some color on our business segments, including some thoughts on performance looking forward into 2013.

**Search & Applications**

- In the **4th quarter**, Search & Applications OIBA grew faster than revenue driven by
  - First, the reduction in incremental, lower margin marketing spend that Greg mentioned.
  - Secondly, outperformance by Ask’s direct domain & SEO businesses, demonstrating the increasing strength of the Ask brand; and
  - Thirdly, the addition of the About business, which is a higher margin business than the existing Search & Applications businesses.

- For **full year 2013**, we’re expecting to be able to grow segment OIBA, pro forma for About, solid to strong double digits percent, with About making a meaningful contribution to growth on both a pro forma and an as reported basis
  - We have previously discussed our expectation for significant synergies at About, and we are already progressing ahead of our initial expectations there, having realized 35% growth in OIBA at About in the fourth quarter versus the business’s results the prior year.

- We expect to experience modest margin leverage in the segment overall as we realize marketing efficiencies and grow About, meaning revenues will grow more slowly than OIBA overall in 2013.

- However, **1st quarter of 2013** will start more slowly than the full year because
  - First, we will feel the biggest impact both from Ask-related marketing pullbacks (in both online and offline marketing) in the 1st quarter and due to a reduction in advertising revenue for some of our applications related to Google policy changes.
  - Secondly, CPCs coming from Google have been softer than usual in January.

- Overall, we still expect to grow our segment revenue sequentially in the 1st quarter, even if only modestly so. Further, pro forma for About, we also still expect modest year-over-year double-digit OIBA growth on low double digit revenue growth.
- We expect quarters two through four to follow a similar sequential growth pattern as we saw in 2012, without, obviously, the sequential hit the segment took in the 4\textsuperscript{th} quarter 2012 from the Google policy changes.

**Match**

- At Match, as Greg noted, we are now projecting a strong **full year 2013** performance based on our recent wins on the conversion front and our product and marketing roadmap for the year.
  - We expect to see strong double digit growth in Match segment OIBA driven by low double digit revenue growth across the segment, inclusive of Meetic, and the kind of operating leverage we have consistently seen at Match overall.

- The **1\textsuperscript{st} quarter of 2013** will see modestly stronger OIBA growth, but modestly lower revenue growth than the full year 2013.
  - We will also see Meetic revenue grow y-o-y in the **1\textsuperscript{st} quarter** for first time since acquisition – reaching solid double digits, including the purchase accounting impact.

**Local**

In the Local segment, **4\textsuperscript{th} quarter 2012** OIBA fell from $4.4 million in 2011 to $1.3 million in 2012, including the $(1.8) million restructuring charge at CityGrid mentioned earlier and expenses related to the site and brand re-launch at HomeAdvisor.

In the **1\textsuperscript{st} quarter of 2013**, the segment will also contribute very little OIBA on mid-single-digits revenue growth, given the same factors we saw in the 4\textsuperscript{th} quarter of 2012.

However, we expect Local to rebound over the course of **full year 2013** and see overall modest double digit growth in both revenue and OIBA for the year, as CityGrid gets traction and as the positive trends from HomeAdvisor’s rebrand and marketing continue.

**Media and Other**

The Media and Other segments in the **4\textsuperscript{th} quarter**, combined, lost $(12.4) million in OIBA on an operating basis and took additional one-time charges of approximately $(7.7) million, the majority of which was for the shutdown of the Newsweek print magazine.
As we discussed on our last call, for the **full year 2013**, we expect to significantly reduce the OIBA loss in the combined Media and Other businesses.

- On a pro forma basis – including all of News_Beast’s 2012 losses prior to consolidation, the OIBA loss for the segment in 2012 would have been $(70.7) million – or approximately $(63.0) million without the restructuring charges.
- As we told you on the last call, we expect this loss to come down to roughly $(25) to (30) million or so for 2013.
  - This is inclusive of $6 to $8 million deferred revenue pickup we expect from moving our Newsweek print subscriber liabilities to other magazines,
  - $4 to $5 million of which will likely be recognized in the 1st quarter.
- It is important to note, however, that our range for the Media and Other segments is subject to change and may move up or down during the year based on decisions to increase or pull back on investments.
- In terms of revenue for the two segments, we expect solid to strong double digit revenue growth for the full year, as the loss of print revenue at News_Beast will be offset by both significant growth in revenue in our Vimeo and Electus businesses and the addition of the revenues from our recent Tutor.com acquisition.

- As a final note, we expect that approximately 40% of the full year OIBA loss for the Media and Other segments combined will hit in the 1st quarter of 2013 – quarterly losses will then decrease sequentially from quarter to quarter.

**Consolidated**

To wrap up the financial discussion, we are expecting another strong year of consolidated OIBA performance in 2013 – on an as reported basis, approximately 30% growth versus full year 2012 consolidated OIBA, inclusive of restructuring costs. We expect solid to strong double digit revenue growth on a consolidated basis as well, lower than in prior years driven primarily by the shutdown in Newsweek print and the overall modestly lower revenue growth in Search & Applications as we grow out of the Google policy changes.

As we referenced in certain of our segment discussions, we also expect the 1st quarter to start out a little more slowly than the rest of the year; and we currently expect both consolidated OIBA and consolidated revenue growth for the quarter in the strong double digits / high teens
range on an as reported basis, with meaningfully higher OIBA growth on a pro forma basis. It is worth noting that this is the first time we have disclosed targets for the 1st quarter of 2013.

Now Barry’s going to talk briefly about capital allocation and then we’ll open it up to Q & A.

**Capital Allocation – Barry Diller**

Thanks, Jeff.

We generally talk about capital allocation in the most general way – using terms like over and under capitalization, and returning cash to shareholders – today I’d like to expand that because we are in a very different capital position than in years past.

After years of having $2 billion plus of net cash, we started 2009 with approximately $1.8 billion. We ended 2012 with net cash of approximately $175 million. Several years ago we committed that we would not be over-capitalized indefinitely and now we’re there.

During that period, we generated approximately $2 billion of cash from a combination of free cash flow, asset dispositions, derivative exercises and other activities, not including our recent debt issuance. So when you do the math, we’ve spent approximately $3.5 billion on non-operating activities over the last four years.

There’s a considerable amount of activity, and here’s what we’ve done with it:

The biggest piece is stock buybacks. Over the last four years we’ve repurchased 97.1 million shares of stock, for total consideration of $2.7 billion, and an average price of $27.37. This includes the repurchase of 6.4 million shares during the fourth quarter of 2012 for total consideration of almost $300 million. In addition, we’ve paid out about $75 million in dividends, and based on yesterday’s stock price, our dividend yield is currently 2.3%. To put it in perspective, during this period we returned to our shareholders 250% of our Free Cash Flow.

Over the same amount of time, we spent $800 million on a series of acquisitions, virtually all of which fell within our core areas of business, which have returned approximately $70 million of after-tax cash to us since acquisition, and which we expect to generate over $165 million of earnings in 2013. After taking into account the return of cash, that means we acquired those
businesses at an adjusted multiple of 4.3 times 2013 EBITDA. This is not an accident. We have developed a competency for identifying businesses in our core areas where we believe we can make meaningful improvements to operations through a transfer of know-how. We’ve demonstrated it repeatedly in the personals segment, most prominently and recently with Meetic, and the early returns make pretty clear we can do it on the Search & Applications side as well. Our most recent acquisition, Tutor.com, represents another candidate for similar activity.

That’s our capital allocation story over the last four years. We’ve struck a solid balance between returning capital to shareholders and making sound acquisitions. We’ve done more than lip service to the classic mantra of capital allocation – that of making solid acquisitions and returning capital.

The net result of these activities is that our capital situation is now clearly different than it has been. We expect to generate over $400 million of free cash flow in 2013. We also have an undrawn revolver and plenty of remaining debt capacity without pushing up against our comfort zone. Going forward, we plan to continue to pay a dividend consistent with our earnings growth, and we’ll continue with our current acquisitions policy. And, as I’ve said for many years, and overfilled anyone’s expectations, we’ll continue to buy back stock opportunistically.