

are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the deferred tax asset will not be realized. As of

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December 31, 2014, the balance of deferred tax liabilities, net, is \$40.9 million. Actual income taxes could vary from these estimates due to future changes in income tax law, state income tax apportionment or the outcome of any review of our tax returns by the various tax authorities, as well as actual operating results that vary significantly from our anticipated results.

Stock-based compensation

The stock-based compensation expense reflected in our combined statements of operations consists of expense related to our stock options, IAC stock options and restricted stock units issued to our employees prior to this offering, restricted shares issued to employees of Meetic, which was publicly-traded prior to its acquisition by us in 2011, and stock options and stock appreciation rights issued by certain of our other subsidiaries.

Prior to this offering, the equity awards that relate to our common stock or the common stock of certain of our subsidiaries are settleable in shares of IAC common stock having a value equal to the difference between the exercise price and the fair market value of our common stock or that of the relevant subsidiary. Upon completion of this offering, the options that relate to our common stock will be adjusted in accordance with their terms to provide that the awards are exercisable for shares of our common stock, and the equity awards that relate to these subsidiaries will provide that the awards will be settleable, at IAC's election, in shares of IAC common stock or in shares of our common stock. To the extent shares of IAC common stock are issued in settlement of these awards, we will reimburse IAC for the cost of those shares by issuing IAC additional shares of our common stock.

We measure and recognize compensation expense for all stock-based awards based on the grant date fair value of the awards. The fair value of stock options is estimated using the Black-Scholes option-pricing model. Fair value is generally recognized as an expense on a straight-line basis, net of estimated forfeitures, over the requisite service period, which is the vesting period of the award. For awards with vesting subject to both a service condition and a performance measure, the expense is measured at the grant date and expensed over the vesting term if the performance measure is considered probable of being achieved.

The Black-Scholes option-pricing model requires the use of highly subjective and complex assumptions, the most significant of which include estimating the fair value of the underlying shares, expected term, expected volatility of the underlying shares, risk-free interest rates and the expected dividend yield. In addition, the recognition of stock-based compensation expense is impacted by our estimated forfeiture rates. The assumptions used in our option pricing model represent management's best estimates. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

The key assumptions used in our option-pricing model are estimated as follows:

- *Fair value of shares.* Because our shares have no publicly-traded history, we must estimate the grant date fair value of these shares, as described in "—Stock option grants and common stock valuations" below.
- *Expected term.* Our stock options have generally had one window each year during which an option holder could exercise options and the expected term is based upon the mid-point of the first and last exercise window.
- *Expected volatility.* In the absence of a trading history for our common stock, we estimated the expected price volatility of our stock options by making reference to a peer group of companies. Prior to 2014, we

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used the historical volatilities of a peer group whose members were chosen on the basis of their similarity to us in terms of consumer use, monetization model, margin and growth characteristics and brand strength, operating across the following sectors: dating and matching, gaming, social, subscription, eCommerce without inventory, and branded consumer internet companies with strong earnings growth. As the value of our company continued to represent an increasingly large percentage of the overall value of IAC, at the beginning of 2014 we concluded that the most relevant reference point for determining our volatility was IAC's historical volatility. Therefore, since that time, IAC's historical volatility has been used to estimate our volatility. We intend to continue to consistently apply this process for our equity awards until a sufficient amount of historical information regarding the volatility of our own stock price becomes available.

- *Risk-free interest rate.* We base the risk-free interest rate for all awards on U.S. Treasuries equal to the expected term of the option on the grant date.
- *Expected dividend yield.* The expected dividend assumption for our stock options was zero at the time of grant based on the expectation of not paying dividends in the foreseeable future.

The following table summarizes the weighted-average assumptions used in our option pricing model for option grants made during the periods indicated for our stock option awards:

	Year ended December 31, 2013	Year ended December 31, 2014	Nine months ended September 30, 2015
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