

operating metrics. The Company generally determines the fair value of contingent consideration using probability-weighted analyses over the period in which the obligation is expected to be settled, and, to the extent the arrangement is long-term in nature, applies a discount rate that appropriately captures the risk associated with the obligation. Significant changes in forecasted earnings or operating metrics would result in a significantly higher or lower fair value measurement. Determining fair value is inherently difficult and subjective and can have a material impact on our combined financial statements. The changes in the remeasured fair value of the contingent consideration arrangements each reporting period are recognized in "General and administrative expense" in the accompanying combined statement of operations. See Note 6 for a discussion of contingent consideration arrangements.

### **Goodwill and indefinite-lived intangible assets**

Goodwill acquired in business combinations is assigned to the reporting unit(s) that is expected to benefit from the combination as of the acquisition date. The Company assesses goodwill and indefinite-lived intangible assets for impairment annually as of October 1, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit or the fair value of an indefinite-lived intangible asset below its carrying value. At October 1, 2014 the Company had two reporting units: Dating and Non-dating.

The Company has the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If the Company elects to perform a qualitative assessment and concludes it is not more likely than not that the fair value of the reporting unit is less than its carrying value, no further assessment of that reporting unit's goodwill is necessary; otherwise, the fair value of the reporting unit has to be determined and if the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the excess is recorded. When the Company evaluates the potential for goodwill impairment using a qualitative assessment it considers factors including, but not limited to, the fair values of recent valuations, changes in the reporting unit's financial performance, forecasts, key personnel, and strategy, as well as changes in the industry conditions, including competition and demand for the reporting unit's services, and macroeconomic conditions.

The Company determines the fair value of its reporting units using both an income approach based on discounted cash flows ("DCF") and a market approach based on a multiple of earnings. Determining fair value requires the exercise of significant judgment with respect to several items, including the amount and timing of expected future cash flows and appropriate discount rates. The expected cash flows used in the DCF analyses are based on the Company's most recent budget and, for years beyond the budget, the Company's estimates, which are based, in part, on forecasted growth rates. The discount rates used in the DCF analyses reflect the risk inherent in the expected future cash flows of the respective reporting units. Assumptions used in the DCF analyses, including the discount rate, are assessed annually based on each of the reporting unit's current results and forecast, as well as macroeconomic and industry specific factors.

For the Company's annual goodwill test at October 1, 2014, a qualitative assessment of the Non-dating reporting unit's goodwill was performed. It was determined it was not more likely than not that the fair

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value was less than the carrying value based primarily on valuations of the reporting unit that were prepared immediately prior to October 1, 2014, in August and September 2014. For the Dating reporting unit, the Company elected to forgo the option to qualitatively assess goodwill and determined the fair value as of October 1, 2014. This valuation reflected a discount rate of 16%.

The Company determines the fair values of its indefinite-lived intangible assets using avoided royalty DCF analyses. Significant judgments inherent in these analyses include the selection of appropriate royalty and discount rates and estimating the amount and timing of expected future cash flows. The discount rates used in the DCF analyses reflect the risks inherent in the expected future cash flows generated by the respective intangible assets. The royalty rates used in the DCF analyses are based upon an estimate of the royalty rates that a market participant would pay to license the Company's trade names and trademarks. Assumptions used in the avoided royalty DCF analyses, including the discount rate and royalty rate, are assessed annually based on the actual and projected cash flows related to the asset, as well as macroeconomic and industry specific factors. The discount rates used in the Company's annual indefinite-lived impairment assessment ranged from 10% to 18% in 2013 and 10% to 20% in 2014, and the royalty rates used ranged from 3% to 7% in both 2013 and 2014.

There were no material impairment charges recorded in the three year period ended December 31, 2014.

### **Long-lived assets and intangible assets with definite lives**

Long-lived assets, which consist of property and equipment and intangible assets with definite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is deemed not to be recoverable, an impairment loss is recorded equal to the amount by which the carrying value of the long-lived asset exceeds its fair value. Amortization of definite-lived intangible assets is computed either on a straight-line basis or based on the pattern in which the economic benefits of the asset will be realized.

### **Fair value measurements**

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.