

Management of the Company is required to make certain estimates, judgments and assumptions during the preparation of its consolidated financial statements in accordance with GAAP. These estimates, judgments and assumptions 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 carrying value of accounts receivable, including the determination of the allowance for doubtful accounts and revenue reserves; the useful lives and recovery of property and equipment; and the liabilities for uncertain tax positions. The Company bases its estimates and judgments on historical experience, its forecasts and budgets and other factors that the Company considers relevant.

Revenue recognition

The Company's revenue is derived both from subscription fees and on-line advertising revenue.

Subscription fees are generated from customers for our subscription-based online personals and related services. Revenue is presented net of credits and credit card chargebacks. Revenue recognition occurs ratably over the terms of the applicable subscriptions, which primarily range from one to twelve months, beginning when there is persuasive evidence of an arrangement, delivery has occurred (access has been granted), the fees are fixed or determinable, and collection is reasonably assured. Subscribers pay in advance, primarily by using a credit card, and, subject to certain conditions identified in our terms and conditions, all purchases are final and nonrefundable. Fees collected in advance for subscriptions are deferred and recognized as revenue using the straight-line method over the term of the applicable subscription period. POF also earns revenue from online advertising which is recognized every time an ad

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is displayed. Deferred revenue is \$5.7 million and \$11.4 million at December 31, 2013 and 2014, respectively.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments, with maturities of less than 91 days from the date of purchase.

Time deposits

The Company has guaranteed investment certificates, which are classified as time deposits on the balance sheet. Time deposits have original maturities exceeding three months, and have remaining maturities within twelve months. Time deposits accrue interest daily based on a fixed interest rate for the term. The carrying value of these financial instruments is recorded at cost plus accrued interest, which approximates their fair value.

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 obtained from observable market prices for identical underlying securities that may not be actively traded.
- 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.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The Company's financial instruments consist of cash and cash equivalents, time deposits, accounts receivable, prepaid and other current assets, accounts payable, and accrued expenses and other current liabilities. The carrying values of these financial instruments approximate their fair values due to the immediate or short-term maturity of these instruments.

Cash and cash equivalents are valued based on Level 1 inputs and time deposits are valued based on Level 2 inputs. There are no assets or liabilities that are measured at fair value on a recurring basis using Level 3 inputs.

The Company's non-financial assets, such as property and equipment are adjusted to fair value only when an impairment charge is recognized. Such fair value measurements are based predominantly on Level 3 inputs.

Accounts receivable

Accounts receivable are stated at amounts due from customers, net of an allowance for doubtful accounts and revenue reserves. Accounts receivable outstanding longer than the contractual payment terms are

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considered past due. The Company determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the specific customer's ability to pay its obligation to the Company and the condition of the general economy and