FriendFinder Networks Inc.
Form 10-K/A
August 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
(Amendment No. 2)

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

For the fiscal year ended December 31, 2012
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 number:

FriendFinder Networks Inc.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	13-3750988 (I.R.S. Employer Identification No.)
6800 Broken Sound Parkway, Suite 200 Boca Raton, Florida (Address of principal executive offices)	33487 (Zip Code)

Registrant’s telephone number, including area code (561) 912-7000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 Par Value	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes £ No R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No R

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 R No £

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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. (Check one):

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

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

The aggregate market value of the 17,550,666 voting and non-voting shares of common stock held by non-affiliates of the registrant as of June 29, 2012, the last business day of the registrant’s second quarter (based on the last reported sales price of such stock on the NASDAQ Global Market on such date of $0.98 per share) was approximately $17.2 million.

As of August 5, 2013, the registrant had 32,827,761 shares of common stock outstanding.

EXPLANATORY NOTE

This Annual Report on Form 10-K/A is being filed by FriendFinder Networks Inc. ("FFN") to amend the Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 1, 2013, as amended on Form 10-K/A on April 30, 2013, to include in the audit report previously filed the city and state of FFN's auditors and a consent including the conformed signature of FFN's auditors. No other items are being amended.

TABLE OF CONTENTS

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
FriendFinder Networks Inc.

We have audited the accompanying consolidated balance sheets of FriendFinder Networks Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, changes in redeemable preferred stock and stockholders' deficiency and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule of valuation and qualifying accounts included in Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FriendFinder Networks Inc. and subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note B to the financial statements, the Company's New First Lien Notes and Cash Pay Second Lien Notes, absent a restructuring or refinancing, mature on September 30, 2013 and further are subject to maturity date acceleration by the lenders as a result of events of default upon the expiration or termination of forbearance agreements currently in place. In addition, the Company has failed to comply with certain covenants related to its Non-Cash Pay Second Lien Notes which mature on April 30, 2014. Accordingly, all such debt has been classified as current liabilities as of December 31, 2012 and cannot be satisfied with available funds which raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ EisnerAmper LLP

New York, New York

April 1, 2013

2

FRIENDFINDER NETWORKS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash	$ 16,839	$ 23,364
Restricted cash	10,064	11,177
Accounts receivable, less allowance for doubtful accounts of $1,284 and $1,155, respectively	12,323	8,939
Inventories	763	822
Prepaid expenses	3,436	5,645
Deferred tax asset	1,844	4,405
Total current assets	45,269	54,352
Film costs, net	3,627	4,105
Property and equipment, net	5,120	7,830
Goodwill	328,061	332,292
Domain names	56,614	56,093
Trademarks	5,643	6,613
Other intangible assets, net	330	16,920
Unamortized debt costs, net	6,179	11,754
Other assets	1,310	3,405
	$ 452,153	$ 493,364
LIABILITIES		
Current liabilities:		
Long-term debt in default, which matures on September 30, 2013 and April 30, 2014 and in 2011, current installment of long term debt, net of unamortized discount of $20,851 and $260, respectively	500,920	8,270
Accounts payable	5,040	11,324
Accrued expenses and other liabilities	62,227	68,930
Deferred revenue	34,741	42,299
Total current liabilities	602,928	130,823
Deferred tax liability	25,639	28,310
Long-term debt, net of unamortized discount of $34,170	—	462,515
Total liabilities	628,567	621,648
Commitments and contingencies (Notes Q and R)		
STOCKHOLDERS' DEFICIENCY		
Preferred stock, $0.001 par value — authorized 22,500,000 shares; issued and outstanding no shares in 2012 or 2011.		
Common stock, $0.001 par value — authorized 125,000,000 shares in 2012 and 2011		
Common stock voting — authorized 112,500,000 shares, issued and outstanding 32,572,761 shares in 2012 and 31,219,644 in 2011.	32	31
Series B common stock non-voting – authorized 12,500,000 shares, issued and outstanding no shares in 2012 or 2011.		

Capital in excess of par value		134,759		133,734
Accumulated deficit		(311,205)		(261,764)
Accumulated other comprehensive loss		—		(285)
Total stockholders' deficiency		(176,414)		(128,284)
	$	452,153	$	493,364

See notes to consolidated financial statements

FRIENDFINDER NETWORKS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31, 2012	2011	2010
Net revenue			
Service	$ 295,241	$ 310,512	$ 324,211
Product	19,138	19,924	21,786
Total	314,379	330,436	345,997
Cost of revenue			
Service	94,225	92,996	97,959
Product	14,717	15,067	12,531
Total	108,942	108,063	110,490
Gross profit	205,437	222,373	235,507
Operating expenses:			
Product Development	15,070	16,885	12,834
Selling and marketing	31,324	30,444	37,258
General and administrative	85,927	87,347	79,855
Amortization of acquired intangibles and software	13,855	15,759	24,461
Depreciation and other amortization	3,160	3,998	4,704
Impairment of other intangible assets	970	2,600	4,660
Total operating expenses	150,306	157,033	163,772
Income from operations	55,131	65,340	71,735
Interest expense, net of interest income	(89,243)	(85,989)	(88,508)
Other finance expenses	(500)	—	(4,562)
Interest related to VAT liability not charged to customers	(1,660)	(1,808)	(2,293)
Net loss on extinguishment and modification of debt	—	(7,312)	(7,457)
Foreign exchange (loss) gain, including amounts related to VAT liability not charged to customers	(958)	(498)	610
Change in fair value of acquisition related contingent consideration	1,400	(920)	—
Gain on liability related to warrants	—	391	38
Other non-operating expenses, net	(59)	(3,530)	(13,202)
Loss from continuing operations before income tax benefit	(35,889)	(34,326)	(43,639)
Income tax benefit	(71)	(6,472)	(486)
Loss from continuing operations	(35,818)	(27,854)	(43,153)
Loss from discontinued operations	(13,623)	(3,289)	—
Net loss	$ (49,441)	$ (31,143)	$ (43,153)
Net loss per common share – basic and diluted:			
Continuing operations	(1.14)	(1.15)	(3.14)
Discontinued operations	(0.43)	(0.13)	—
Net loss	$ (1.57)	$ (1.28)	$ (3.14)

Weighted average shares outstanding — basic and diluted	31,560	24,249	13,735

See notes to consolidated financial statements

FRIENDFINDER NETWORKS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(IN THOUSANDS)

	Twelve Months Ended December 31, 2012	2011
Net Loss	$ (49,441)	$ (31,143)
Other comprehensive loss:		
Foreign currency translation adjustment	(51)	(285)
Reclassification of foreign currency translation adjustment related to sale of JigoCity operations	336	–
Comprehensive loss	$ (49,156)	$ (31,428)

See notes to consolidated financial statements

5

FRIENDFINDER NETWORKS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIENCY
YEARS ENDED DECEMBER 31, 2012, 2011 and 2010
(IN THOUSANDS, EXCEPT SHARE DATA)

	Redeemable Preferred Stock								Stockholders' Defici			
	Series A Convertible		Series B Convertible		Preferred Stock				Common Stock			
					Series A Convertible		Series B Convertible		Voting		Series B Non-Voti	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	A
Balance at January 1, 2010	1,766,703	21,000	8,444,853	5,000	0			0	6,517,746	6	1,839,825	
Transfer of preferred stock from temporary equity to stockholders' deficiency	(1,766,703)	(21,000)	(8,444,853)	(5,000)	1,766,703	2	8,444,853	8				
Other												
Net loss												
Balance at December 31, 2010	0	$0	0	$0	1,766,703	$2	8,444,853	$8	6,517,746	$6	1,839,825	
Conversion of Series A convertible preferred stock into common stock at ratio of 1:13 to 1:00					(1,766,703)	(2)			2,000,452	2		
Conversion of Series B convertible preferred stock into common stock							(8,444,853)	(8)	8,444,853	8		
Exchange of Series B common stock into common stock									1,839,825	2	(1,839,825)	
Exercise of common stock									5,560,672	6		

purchase warrants											
Issuance of common stock in initial public offering									5,000,000	5	
Costs related to initial public offering											
Beneficial conversion feature on Non-Cash Pay Second Lien Notes recorded in connection with initial public offering net of $5.7 million of related deferred taxes											
Reclassification of warrant liability due to exercise of stock warrants									174,246		
Stock based compensation											
Common stock issued in acquisition of PerfectMatch.com									126,295		
Common stock and warrants issued in acquisition of JigoCity									1,555,555	2	
Net Loss											
Foreign currency translation adjustment											
Balance at December 31, 2011	0	$0	0	$0	0	$0	0	$0	31,219,644	$31	0
Exercise of warrants									285,617		
Issuance of restricted and non-restricted common shares pursuant to restricted stock compensation									1,067,500	1	

plans											
Stock based compensation											
Foreign currency translation adjustment											
Reclassification to discontinued operations in connection with sale of JigoCity											
Cancellation of warrants in connection with the sale of JigoCity											
Net Loss											
Balance at December 31, 2012	0	$0	0	$0	0	$0	0	$0	32,572,761	$32	0

See notes to consolidated financial statements

6

FRIENDFINDER NETWORKS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended December 31, 2012	2011	2010
Cash flows from operating activities:			
Net loss	$ (49,441)	$ (31,143)	$ (43,153)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Loss from discontinued operations	13,623	3,289	—
Deferred income tax benefit	(108)	(6,508)	(1,278)
Impairment of intangibles	970	2,600	4,660
Net loss on extinguishment and modification of debt	—	7,312	7,457
Amortization of acquired intangibles and software	13,854	15,759	24,461
Depreciation and other amortization	3,160	3,998	4,704
Amortization of film costs	2,793	3,493	3,763
Non-cash interest, including amortization of discount	46,961	55,744	45,148
Provision for doubtful accounts	660	176	839
Change in fair value of acquisition related contingent consideration	(1,400)	920	—
Gain on warrant liability	—	(391)	(38)
Stock based compensation expense	1,043	3,737	—
Other	1,010	612	502
Changes in operating assets and liabilities, net of effects of acquisition:			
Restricted cash	983	(3,661)	(1,090)
Accounts receivable	(4,044)	771	1,417
Inventories	59	206	311
Prepaid expenses	112	986	3,446
Film costs	(2,315)	(3,286)	(3,549)
Deferred debt costs	(2,312)	—	(4,265)
Deferred offering costs	—	—	(4,217)
Other assets	802	362	1,169
Accounts payable	(3,940)	(982)	(3,132)
Accrued expenses and other liabilities	4,809	(7,389)	3,230
Deferred revenue	(7,558)	(6,003)	2,255
Net cash provided by continuing operations	19,721	40,602	42,640
Net cash used in discontinued operations	(7,175)	(2,815)	—
Net cash provided by operating activities	12,546	37,787	42,640
Cash flows from investing activities:			
Cash received from escrow in connection with acquisition		—	2,679
Purchases of property and equipment	(2,468)	(5,457)	(3,530)
Cash paid for acquisition	—	(2,030)	—
Other	(521)	(53)	(399)
Net cash used in investing activities	(2,989)	(7,540)	(1,250)
Cash flows from financing activities:			
	—	50,000	—

Gross proceeds from sale of common stock in initial public offering						
Payment of underwriter discount and other offering costs in connection with initial public offering		—		(6,724)		—
Issuance of New First and Second Lien Notes		—		—		89,572
Debt issuance costs		—		296		(5,834)
Repayment of long-term debt		(16,082)		(41,546)		(25,921)
Redemption of long-term debt		—		(43,495)		(86,237)
Other		—		—		(985)
Net cash used in financing activities		(16,082)		(41,469)		(29,405)
Effect of exchange rate changes on cash		—		1		—
Net (decrease) increase in cash		(6,525)		(11,221)		11,985
Cash at beginning of period		23,364		34,585		22,600
Cash at end of period	$	16,839	$	23,364	$	34,585

See notes to consolidated financial statements

FRIENDFINDER NETWORKS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended December 31, 2012	2011	2010
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	$ 40,256	$ 29,498	$ 43,541
Income taxes	—	$ 30	—
Non-cash investing and financing activities:	—	—	—
Recording of beneficial conversion feature on Non-Cash Pay Second Lien Notes in connection with initial public offering, net of $5,660 of related deferred taxes	—	$ 8,490	—
Deferred offering costs written off to capital in excess of par	—	$ 13,267	—
Conversion of Series A and B convertible preferred stock and series B common stock to common stock	—	$ 12	—
Common stock issued as partial consideration in acquisition of PerfectMatch.com	—	$ 500	—
Common stock and warrants issued and contingent consideration liability incurred as consideration for acquisition of JigoCity	—	$ 7,500	—
Exchange of New First Lien Notes for outstanding First ($126,124) and Second ($48,275) Lien Notes	—	—	$ 174,399
Issuance of New First Lien Notes for commitment fees	—	—	$ 13,146
Exchange of New First Lien Notes and Cash Pay Second Lien Notes for Senior Secured Notes	—	—	$ 28,053
Exchange of Non-Cash Pay Second Lien Notes for $161,560 of Subordinated Convertible Notes plus $3,514 of accrued interest	—	—	$ 165,074
Exchange of Non-Cash Pay Second Lien Notes for $42,811 of Subordinated Term Notes plus $5,949 of accrued interest	—	—	$ 45,726
Cancellation of warrants issued in acquisition of JigoCity	$ 17	—	—

FRIENDFINDER NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A — Description of Business

FriendFinder Networks Inc. ("FriendFinder"), together with Various, Inc. and its other wholly-owned subsidiaries (hereinafter referred to as the "Company"), is an internet and technology company providing services in the social networking and web-based video sharing markets. The business consists of creating and operating technology platforms which run several websites throughout the world appealing to users of diverse cultures and interest groups. The Company is also engaged in entertainment activities consisting of publishing, licensing and studio production and distribution. The Company publishes PENTHOUSE and other adult-oriented magazines and digests. Additionally, the Company licenses the PENTHOUSE name for international publication of adult magazines and for use on various products and provides various adult-oriented multimedia entertainment products and services, including content for pay-per-view programming.

Note B — Basis of Presentation

On October 27, 2010, the Company completed a debt restructuring which consolidated substantially all of its debt into three tranches with maturities on September 30, 2013 and April 30, 2014. As described in Note K (f), in March 2012, the indentures governing the New First Lien Notes and Cash-Pay Second Lien Notes were modified to, among other changes, amend the Excess Cash Flow calculation to provide for 85% of Excess Cash Flow (as defined) be applied quarterly as a prepayment against the notes at 110% of principal and state that certain covenant violations under the Non-Cash Pay Second Lien Notes would not cause a default under the New First Lien Notes or the Cash Pay Second Lien Notes. The Company did not make Excess Cash Flow payments due on November 5, 2012 and February 4, 2013 applicable to the quarters ended September 30, 2012 and December 31, 2012, respectively, which constituted events of default under the New First Lien Notes and Cash Pay Second Lien Notes. The Company has received forbearance agreements from over 80% of its senior lenders and all of its Cash Pay Second Lien lenders with respect to such events of default, which as amended on February 4, 2013, remain in place until May 6, 2013 or earlier under certain circumstances.

Commencing on March 31, 2012 and for each quarter end thereafter, the Company was not in compliance with certain covenants contained in the indenture governing the Non-Cash Pay Second Lien Notes. The Trustee of the Non-Cash Pay Second Lien Notes and the Required Holders thereof waived compliance with these covenants for the periods ended March 31 and June 30, 2012 but did not waive compliance as of September 30 or December 31, 2012. However, neither the Trustee of the Non-Cash Pay Second Lien indenture nor the holders of the Non-Cash Pay Second Lien Notes may accelerate such Notes or take any other enforcement action until the New First Lien Notes are paid in full. As the Non-Cash Pay Second Lien Notes are in default at December 31, 2012 and the New First Lien Notes and Cash Pay Second Lien Notes mature no later than September 30, 2013, the Non-Cash Pay Second Lien Notes can be accelerated thereafter assuming repayment upon maturity and, accordingly, have been classified as a current liability in the accompanying 2012 consolidated balance sheet.

As described above, the New First Lien Notes and Cash Pay Second Lien Notes mature on September 30, 2013 or may be subject to accelerated maturity prior thereto upon the expiration or termination of the forbearance agreements currently in place. In addition, events of default have occurred under the Non-Cash Pay Second Lien Notes and, accordingly, such notes are also subject to accelerated maturity upon repayment of the New First Lien Notes. All such debt is classified as current liabilities in the accompanying consolidated balance sheet at December 31, 2012 and cannot be satisfied by available funds which raises substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that may result from the outcome this uncertainty.

Management is attempting to restructure or refinance the Company's debt prior to maturity. Based on cash provided from operating activities (after interest payments on debt) during the past several years, a substantial percentage of which has been used to make principal payments on debt and its forecasts of future operating cash flow, the Company anticipates that it will be able to either restructure or refinance the notes; however there is no assurance that the Company will be able to accomplish such transactions on acceptable terms, or at all. Continuation of the Company as a going concern will be dependent on achieving a successful refinancing or restructuring of its notes.

Note C — Summary of Significant Accounting Policies

1. Principles of consolidation:

The consolidated financial statements include the accounts of FriendFinder and its subsidiaries, all of which are wholly owned. Intercompany accounts and transactions have been eliminated in consolidation.

2. Stock splits:

On January 25, 2010, the Company effected 1-for-20 reverse splits of each class and series of the Company's authorized capital stock, including all designated classes and series of common and preferred stock, and a corresponding and proportionate decrease in the number of outstanding shares of each such class and series. In addition, following the effectiveness of the reverse stock splits, the Company's articles of incorporation were amended and restated on January 25, 2010 to reflect a total of 125 million shares of authorized common stock and 22.5 million shares of authorized preferred stock and a change in the par value of such shares from $0.01 par value to $0.001 par value. Retroactive effect has been given to the change in authorized shares and split in the accompanying financial statements and notes and all share and per share amounts have been adjusted to reflect the reverse stock splits.

3. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and cash equivalents:

Cash and cash equivalents include all cash balances and highly liquid investments having original maturities of three months or less when purchased. As of December 31, 2012 and 2011, there were no cash equivalents.

5. Restricted cash:

The credit card processors used by Various regularly withhold deposits and maintain balances which are recorded as restricted cash.

6. Accounts receivable:

Accounts receivable is principally comprised of credit card payments owed to Various for membership fees, which are pending collection from the credit card processors. An allowance for doubtful accounts is estimated based on past experience. In addition, an estimated liability is recorded by Various based on historical trends of chargeback levels from credit card processing banks and credits from customers for disputed charges. The chargeback and credit liability as of December 31, 2012 and 2011, which is included in accrued expenses and other liabilities, was approximately $872,000 and $785,000, respectively. Chargebacks and credits charged to revenue for the years ended December 31, 2012, 2011 and 2010 were approximately $20,076,000, $19,094,000 and $21,872,000, respectively.

7. Inventories:

Inventories, which consist principally of paper and printing costs, are valued at the lower of cost (first-in, first-out method) or market.

8. Property and equipment:

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Computer hardware and software are depreciated over three years and leasehold improvements are amortized over the shorter of the life of the lease or the estimated useful life of the improvements.

9. Software costs:

Costs related to developing or obtaining internal-use software incurred during the preliminary project and post-implementation stages of an internal use software project are expensed as incurred and certain costs incurred in the project’s application development stage are capitalized as property and equipment. The Company expenses costs related to the planning and operating stages of a website. Direct costs incurred in the website’s development stage are capitalized. Costs associated with minor enhancements and maintenance for the website are included in expenses as incurred.

Note C — Summary of Significant Accounting Policies (Continued)

10. Film costs:

Film costs consist of direct costs of production of adult entertainment video content. Such costs are being amortized using the straight-line method over thirty-six months, which represents the estimated period during which substantially all revenue from the content will be realized. Film cost amortization is included in cost of revenue.

11. Goodwill, trademarks and other intangibles:

Goodwill and trademarks, which are deemed to have an indefinite useful life, were recorded in connection with the adoption of fresh start reporting upon the Company's emergence from bankruptcy proceedings. Additionally, goodwill was recorded in connection with the acquisition of Various and other business combinations, representing the excess of the purchase price over the fair value of the identifiable net assets acquired. These assets, together with domain names that were recorded in the Various acquisition and were also deemed to have an indefinite useful life based primarily on the Company's plans for continued indefinite use, are not amortized, but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test for indefinite-lived trademarks and domain names consists of a comparison of their fair value with their carrying amount. See Notes G and H with respect to impairment of goodwill and trademarks, respectively.

Other intangible assets are deemed to have finite useful lives and are amortized over periods ranging from two to five years. The Company evaluates the recoverability of such assets by comparing their carrying amount to the expected future undiscounted cash flows to be generated from such assets when events or circumstances indicate that impairment may have occurred. If the carrying amount exceeds such cash flow, an impairment loss would be recognized to the extent such carrying amount exceeds the fair value of the impaired assets based upon their discounted future cash flows.

12. Deferred debt costs:

Debt issuance costs and waiver, amendment and commitment fees paid to debt holders are deferred and amortized by the effective interest method over the remaining term of the related debt instrument. Approximately $13.3 million of such costs and fees were written off when the Company completed a debt restructuring in 2010 of which $8.6 million was included in loss on extinguishment of debt and $4.6 million was classified as other finance expenses (see Note K). Approximately $3.4 million of such costs and fees were written off in May 2011 when the Company completed its IPO and redeemed $39,541,000 principal of long-term notes. Accumulated amortization amounted to approximately $16.2 million and $17.0 million at December 31, 2012 and 2011, respectively.

13. Deferred offering costs:

Incremental costs incurred in connection with an IPO of the Company's common stock filed with the Securities and Exchange Commission ("SEC") were classified as deferred offering costs in the consolidated balance sheets. In May 2011 upon completion of the Company's IPO approximately $19.9 million of these costs were charged to capital in excess of par.

14. Revenue recognition:

a) Internet:

Revenues from subscription fees are recognized ratably over the subscription period, including anticipated free promotional periods for which no additional amounts are charged, beginning when there is persuasive evidence of an arrangement, delivery has occurred (access has been granted) and the fees are fixed and determinable. Collection is reasonably assured as subscribers pay in advance, primarily by using a credit card and all purchases are final and nonrefundable. Free promotional periods are earned based on the level of a subscribers monthly activity, are dependent on the length and level of the subscription, and range from one to six months. Fees collected in advance are deferred and recognized as revenue using the straight-line method over the term of the subscription, which ranges from one to eighteen months.

Revenues on a pay-by-usage basis are recognized when access has been granted. Revenues for banner advertising on websites are recognized ratably over the period that the advertising appears. Commission revenue from the shipment of products (i.e., adult novelty items and videos) from online stores, which are operated by a third party, are recognized upon receipt of notification of the commission owed the Company from the online store operator.

The Company estimates the amount of chargebacks that will occur in future periods to offset current revenue. The Company's revenue is primarily collected through online credit card transactions. As such, the Company is subject to chargebacks by consumers generally up to 90 days subsequent to the original sale date. The Company accrues chargebacks based on historical trends relative to sales levels by website.

Note C — Summary of Significant Accounting Policies (Continued)

b) Entertainment:

Revenues from the sale of magazines at newsstands are recognized on the on-sale date of each issue based on an estimate of the total sale through, net of estimated returns. The amount of estimated revenue is adjusted in subsequent periods as sales and returns information becomes available. Revenues from the sale of magazine subscriptions are recognized ratably over their respective terms which range from one to two years. The unrecognized portion of magazine subscriptions is shown as deferred revenue. Revenues from advertising in magazines are recognized on the on-sale date of each issue in which the advertising is included.

For agreements that involve the distribution of video content, revenue is recognized upon notification from the customer of amounts due. For agreements that provide for a flat fee payable with respect to multiple films (including films not yet produced or completed) the fees are allocated based on the relative fair values of the films with the fees allocated to films not yet completed based on the amount refundable to the customer should the Company not ultimately complete and deliver the films.

Revenues from the licensing of the PENTHOUSE name for use (i) in the publication of magazines in foreign countries and the sale of consumer products are recognized in the period of sale as reported by the licensee and (ii) in connection with licensed nightclubs are recognized ratably over the term of the license agreement for up-front payments and in the period of sale as reported by the licensee on food, beverages and other sales.

15. Cost of revenue:

Cost of service revenue includes commissions paid to websites having direct links to the Company's websites resulting in new subscribers, costs for online models and studios and amortization of capitalized website development costs.

Cost of product revenue includes the costs of printing and distributing of magazines and amortization of production costs of videos containing adult entertainment content. Shipping and handling costs are also included and amounted to approximately $1,652,000, $1,826,000 and $2,105,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

16. Product development:

Costs related to the planning and post-implementation stages of the Company's website development efforts are recorded as product development expense. Direct costs incurred in the product development stage are capitalized and amortized over the website's estimated useful life of three years as charges to cost of service revenue.

17. Advertising:

Advertising costs are expensed as incurred. For the years ended December 31, 2012, 2011 and 2010, the Company incurred advertising costs, included in selling and marketing expense, amounting to approximately $25,737,000, $22,530,000 and $32,301,000, respectively. Costs consist principally of payments to internet search engines for key words searches to generate traffic to the Company's websites.

18. Loyalty program:

The Company operates a point-based loyalty program designed to increase participation in its assorted membership activities. These points are earned through activities such as, but not limited to, participating in sponsored blogs and online magazines, as well as by increasing the uniqueness of a member profile through the addition of photographs and other assorted items. Points may be redeemed for other membership services such as upgraded memberships or highlighting of member profiles in online searches. As the incremental cost of providing these additional membership services is minimal, no liabilities are recorded in connection with point redemptions.

19. Stock-based compensation:

Cost of stock-based compensation arrangements, including stock options, is measured based on the fair value of the equity instrument issued at the date of grant and is expensed over the vesting period.

Note C — Summary of Significant Accounting Policies (Continued)

20. Income taxes:

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are recorded for net operating loss carry forwards and for the difference between the tax bases of assets and liabilities and their respective financial reporting amounts at enacted tax rates in effect for the years in which the temporary differences are expected to reverse. A valuation allowance is recorded if it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods.

21. Value added taxes:

Value added taxes ("VAT") are presented on a net basis and are excluded from revenue.

22. Foreign currency transactions and translation:

Revenue derived from international websites is paid in advance primarily with credit cards and is denominated in local currencies. Substantially all such currencies are converted into U.S. dollars on the dates of the transactions at rates of exchange in effect on such dates and remitted to the Company. Accordingly, foreign currency revenue is recorded based on the U.S. dollars received by the Company. Accounts receivable due from, and restricted cash held by, foreign credit card processors, certain cash balances and VAT liabilities denominated in foreign currencies are translated into U.S. dollars using current exchange rates in effect as of the balance sheet date. Gains and losses resulting from transactions denominated in foreign currencies are recorded in the statements of operations.

JigoCity was acquired in 2011 and sold in 2012 (see Note I). Operations of JigoCity's foreign subsidiaries were conducted in local currencies which represented their functional currencies. Balance sheet accounts of such subsidiaries were translated from foreign currencies into U.S. dollars at the exchange rate in effect at each balance sheet date and income statement accounts were translated at the average rate of exchange prevailing during the period. Translation adjustments resulting from this process, were included in accumulated other comprehensive loss on the consolidated balance sheet and reclassified to operations upon sale of JigoCity.

23. Concentration of credit risk:

The Company's cash and accounts receivable are potentially subject to concentrations of credit risk. Cash is placed with financial institutions that management believes are of high credit quality. The Company's accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. At December 31, 2012 and 2011, accounts receivable balances are due principally from credit card processors and are settled upon processing of credit card transactions. As of December 31, 2012, two credit card processors each accounted for approximately 16.0% of accounts receivable and, as of December 31, 2011, one credit card processor accounted for 14% of accounts receivable. At December 31, 2012 and 2011, no other credit card processors accounted for more than 10% of the accounts receivable. During the years ended December 31, 2012, 2011 and 2010, no customer accounted for more than 10% of net revenue.

24. Fair value of financial instruments:

The fair value hierarchy, established under authoritative accounting guidance, ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices in active markets, which are directly or indirectly observable for the asset or liability.
- Level 3 – Unobservable inputs for the asset or liability where there is little or no market data, which requires the reporting entity to develop its own assumptions.

The carrying amounts of receivables and payables approximate their fair values due to the short-term nature of these financial instruments. As of December 30, 2012, the carrying value of long-term debt was $500.9 million compared to its estimated fair value of $240.9 million. As of December 31, 2011, the carrying value of long-term debt was $470.9 million compared to its estimated fair value of $380.8 million. The fair value of First Lien Notes of $184.2 million (2012) and $209 million (2011) is based on quoted market prices (level 2), the fair value of the Cash-Pay Second Lien Notes of $1.8 million (2012) is based on third party pricing information (level 2) and $7.3 million (2011) is based on a discount to the quoted price of the New First Lien Notes (level 3) and the fair value of Non-Cash Pay Second Lien Notes of $54.9 million (2012) and $164.5 million (2011) for which trading is inactive is based on third party pricing information (level 2).

Note C — Summary of Significant Accounting Policies (Continued)

25. Per share data:

Basic and diluted net loss per common share is based on the weighted average number of shares of outstanding common stock and Series B common stock including shares underlying common stock purchase warrants which are exercisable at the nominal price of $0.0002 per share. Convertible participating securities are included in the computation of basic earnings per share using the two-class method. Inasmuch as the Series B common stock participated in any dividends and shared in the net loss on a pro rata basis with the common stock based on the total number of common shares outstanding, the net loss per common share, basic and diluted, as presented in the Company's statements of operations is consistent with the two-class method. Weighted average shares outstanding — basic and diluted are comprised of the following (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Common stock	31,531	21,330	6,518
Series B common stock	–	710	1,840
Common stock purchase warrants	29	2,209	5,377
	31,560	24,249	13,735

In computing diluted loss per share, no effect has been given to the common shares issuable at the end of the period upon conversion or exercise of the following anti-dilutive securities that could potentially dilute basic earnings per share in future periods (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Series A Convertible Preferred Stock	—	—	2,000
Series B Convertible Preferred Stock	—	—	8,445
Warrants	2,325	6,437	502
Convertible Non Cash Pay Second Lien Notes	8,311	8,311	—
Non-vested shares	936	—	—
Employee Stock Options	1,134	590	—
Total common shares issuable	12,706	15,338	10,947

The Series A and Series B preferred stock were convertible participating securities which were converted into common stock in 2011; however, as there was no contractual obligation for the holders of such shares to share in the losses of the Company, the preferred shares were not included in the computation of basic and diluted net loss per share (see Note M).

For the year ended December 31, 2012 and 2011, the above table of anti-dilutive securities includes 2,325,000 and 6,436,851 warrants exercisable into shares of common stock granted in connection with the acquisition of JigoCity in 2011 (see Note M). In addition, the 2012 and 2011 table each include 8,310,763 shares of common stock issuable on conversion of Non-Cash Pay Second Lien Notes, and 1,134,000 and 590,000 shares of common stock underlying outstanding stock options granted under the 2008 Stock Option Plan, as such notes became convertible and the stock options were considered granted for accounting purposes with consummation of the IPO in May 2011. For the year ended December 30, 2010, no shares are included in the above table with respect to the conversion of Non-Cash Pay Second Lien Notes and the Subordinated Convertible Notes, as the number of common shares into which the notes are convertible was based upon an IPO price which was not determinable on that date. In addition, no shares are included in the above table with respect to agreements to grant options to acquire 551,750 shares of common stock outstanding at December 30, 2010, respectively, under the 2008 Stock Option Plan as, for accounting purposes, the grant date occurred upon consummation of the IPO in 2011.

Note C — Summary of Significant Accounting Policies (Continued)

26. New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("the FASB") issued authoritative guidance that amends the presentation of comprehensive income in the financial statements by requiring an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update also eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2011, with early adoption permitted. The Company adopted this guidance effective January 1, 2012 by presenting a separate statement of comprehensive loss.

In September 2011, the FASB issued new authoritative accounting guidance which will allow entities to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Although this guidance is effective January 1, 2012, the Company performed a quantitative goodwill impairment test in 2012.

In July 2012, the FASB issued authoritative guidance to simplify the assessment of testing the impairment of indefinite-lived intangible assets other than goodwill. The guidance allows the Company to do an initial qualitative assessment to determine whether it is more likely than not that the fair value of its indefinite-lived intangible assets are less than their carrying amounts prior to performing the quantitative indefinite-lived intangible asset impairment test. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 with early adoption permitted. The Company does not believe the adoption of this guidance will have a material effect on its financial statements.

Note D — Inventory

The components of inventory were as follows (in thousands):

	December 31, 2012		December 31, 2011	
Paper and printing costs	$	665	$	723
Editorials and pictorials		98		99
	$	763	$	822

Note E — Film Costs

Film costs activity consists of the following (in thousands):

	Year Ended December 31, 2012		2011		2010	
Opening balance	$	4,105	$	4,312	$	4,526
Content produced		2,315		3,286		3,549
Amortization		(2,793)		(3,493)		(3,763)
Ending balance	$	3,627	$	4,105	$	4,312

Substantially all of the capitalized film costs at December 31, 2012, 2011 and 2010 represent completed and released content. Management estimates that amortization charges for the completed and released content, as of December 31, 2012, will be $2,073,000, $1,233,000 and $321,000 for the years ending December 31, 2013, 2014, and 2015, respectively.

Note F — Property and Equipment

Property and equipment consists of the following (in thousands):

	December 31, 2012	December 31, 2011
Property and equipment:		
Leasehold improvements	$ 1,877	$ 1,191
Computer hardware and software	28,012	44,840
	29,889	46,031
Less accumulated depreciation and amortization	24,769	38,201
	$ 5,120	$ 7,830

Depreciation and amortization expense amounted to approximately $3,160,000, $3,998,000 and $10,113,000 for the years ended December 31, 2012, 2011 and 2010, respectively. Computer hardware and software includes $17.3 million of software obtained in the Various acquisition. Amortization expense of the acquired software, which was fully amortized in 2010 and written-off against accumulated amortization in 2012 amounted to $5,379,000 for the year ended December 31, 2010 and is included in amortization of acquired intangibles and software in the accompanying statements of operations.

Note G — Goodwill

Changes in the carrying amount of goodwill, all of which relates to the Internet segment, for the years ended December 31, 2011 and 2012 are as follows (in thousands):

Balance as of December 31, 2010	$ 326,540
Acquisition of Perfectmatch.com	1,521
Acquisition of JigoCity	4,290
Reduction due to foreign currency translation adjustments	(59)
Balance as of December 31, 2011	332,292
Sale of JigoCity	(4,231)
Balance as of December 31, 2012	$ 328,061

Impairment of goodwill is required to be tested at least annually. Impairment is tested by comparing the fair values of the applicable reporting units with the carrying amount of their net assets, including goodwill. The fair value of each reporting unit was determined at December 31, 2012, 2011 and 2010 by weighting a combination of the present value of the Company's discounted anticipated future operating cash flows and values based on market multiples of revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") of comparable companies. If the carrying amount of the reporting unit's net assets exceeds the unit's fair value, an impairment loss would be recognized in an amount equal to the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination with the fair value of the reporting unit deemed to be the purchase price paid. No impairments were indicated as a result of the annual impairment tests referred to above.

Note H — Intangible Assets

Other intangible assets consist of the following (in thousands):

	December 31, 2012		December 31, 2011		
	Gross	Accumulated	Gross	Accumulated	Estimated

	Amount	Amortization	Amount	Amortization	Useful Lives (Years)
Amortizable intangible assets:					
Customer lists and subscriber relationships	$ 23,996	$ 23,895	$ 25,482	$ 23,914	2 – 4
Service contracts	72,800	72,800	73,095	59,342	3 – 5
Studio contracts	3,300	3,300	3,300	3,300	4
Other	450	221	4,674	3,075	3
	$ 100,546	$ 100,216	$ 106,551	$ 89,631	

Note H — Intangible Assets (continued)

For the years ended December 31, 2012, 2011, and 2010, aggregate amortization expense amounted to $13,855,000, $15,759,000 and $19,082,000, respectively and is included in amortization of acquired intangibles and software in the accompanying statement of operations. Estimated future amortization expense is as follows: $250,000 (2013), and $80,000 (2014).

Trademarks relate to publishing, licensing and studio operations which are included in the Entertainment segment. The Company recognized a trademark impairment loss of $970,000, $2,600,000 and $4,660,000 for the years ended December 31, 2012, 2011 and 2010, respectively. Such loss resulted due to the estimated fair value of the trademarks being less than their carrying value. The fair value of trademarks related to publishing is estimated based on an income approach using the relief-from-royalty method. This methodology assumes that, in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of these types of assets. This approach is dependent on a number of factors, including estimates of future growth and trends, royalty rates in the category of intellectual property, discount rates and other variables. The fair value of trademarks related to licensing is based on an income approach using the present value of discounted anticipated operating cash flows. The Company bases its fair value estimates on assumptions it believes to be reasonable, but which are unpredictable and inherently uncertain. The impairment of trademarks mainly resulted from declines in projected operating results and cash flows related to publishing and licensing.

Note I — Acquisitions and Dispositions

On July 12, 2011, the Company acquired substantially all the assets of PerfectMatch.com, from Matrima, Inc. for approximately $2,000,000 in cash and 126,295 shares of common stock valued at $500,000 based on the closing price of the Company's common stock on such date. PerfectMatch.com is an online relationship service helping adults seeking lasting connections. The purchase price was allocated to software ($450,000), customer lists ($379,000) and domain names ($150,000), and the balance to goodwill ($1,521,000). The impact of the acquisition on the Company's financial statements is not material.

On September 7, 2011, pursuant to a merger agreement, a newly-formed wholly-owned indirect subsidiary of Various acquired the assets and assumed the liabilities of BDM Global Ventures Limited ("BDM"), a British Virgin Islands ("BVI") limited company formed in July 2010, which, through wholly-owned BVI limited companies and their foreign subsidiaries, owns and operates JigoCity, a global social commerce organization. BDM and its subsidiaries are hereafter referred to as JigoCity. As consideration for JigoCity, FriendFinder issued to the shareholders of JigoCity 1,555,555 shares of FriendFinder's common stock and warrants exercisable for 6,436,851 shares of FriendFinder's common stock. The warrants, which expire on December 31, 2021, have exercise prices ranging from $5.00 to $18.00 per share of which warrants to acquire approximately 2 million shares have exercise prices between $5.00 and $10.00 per share and warrants to acquire approximately 4.4 million shares have exercise prices between $11.00 and $18.00 per share. Of the merger consideration, 500,000 shares of FriendFinder common stock were held in escrow until December 31, 2012, subject to release on a quarterly basis, to satisfy any potential indemnification claims under the merger agreement. All such stock has been released.

Concurrently with entering into the merger agreement, FriendFinder entered into an equity put agreement with the former shareholders of JigoCity pursuant to which such shareholders have the option to sell all of their shares of common stock and warrants received as consideration in the merger back to FriendFinder in exchange for the return of 70% of the equity in JigoCity if the volume-weighted average price of FriendFinder's common stock fails to equal or exceed $12.00 per share during any 10 trading day period between the closing date of the merger and the later of June 30, 2014 and the date upon which FriendFinder current indentures are fully discharged, or if an "indenture modification" is made, as defined under the equity put agreement, the later of June 30, 2014 and the date that the indenture modification takes place (the later date hereinafter referred to as the "Vesting Date"). The equity put agreement provides that the put right shall become exercisable at the sole discretion of the shareholders' appointed representative during the period commencing on the Vesting Date and expiring sixty days thereafter. Additionally, pursuant to the equity put agreement, if the shareholders exercise the put right, FriendFinder has a right to pay them in common stock and/or cash, having a combined value as of the later of the above dates equal to the product of (i) 2,209,414 shares of common stock (subject to dilutive adjustment) and (ii) the difference between the highest 10 day volume-weighted average price attained by FriendFinder common stock during such period and $12.00, in which case the put right terminates.

The total acquisition date fair value of the consideration transferred is estimated at $7.5 million, which includes the estimated fair value of acquisition-related contingent consideration which may be paid to JigoCity shareholders if the put option referred to above is exercised by such shareholders. In addition, legal and other acquisition-related costs of approximately $0.4 million were incurred and charged to general and administrative expense. The total acquisition date fair value of consideration transferred is estimated as follows:

Common stock	$ 4,460,000
Warrants	2,560,000
Acquisition related contingent consideration	480,000
	$ 7,500,000

17

Note I — Acquisitions and Dispositions (continued)

The estimated fair value for the 1,555,555 shares of FriendFinder's common stock issued to JigoCity shareholders was based on $2.87 per share, representing the closing price of the common stock on the NASDAQ Global Market on the date of the acquisition.

The estimated fair value of the warrants to acquire 6,436,851 shares of FriendFinder's common stock issued to JigoCity shareholders was determined based on the Black-Scholes option pricing model using the following valuation inputs: (a) market price of $2.87 per share, which was the closing price of FriendFinder's common stock on the acquisition date, (b) exercise prices of the warrants ranging from $5.00 to $18.00 per share, (c) contractual term of the warrants of approximately 10 years (d) risk-free interest rate of 2.05% (e) expected volatility of 35% and (f) no dividend yield. Based on the length of time FriendFinder's shares have been traded, volatility was based on the average of historical and implied volatilities for a period comparable to the contractual term of the warrants of certain individual entities considered to be similar to FriendFinder. The risk-free interest rate is based on yields on U.S. government securities with a maturity which approximates the contractual term of the warrants.

A liability was recognized for an estimate of the acquisition date fair value of the acquisition-related contingent consideration which may be paid. The liability was measured as the present value of the put option determined based on estimated future trading prices of FriendFinder's common stock between September 7, 2011 and June 30, 2014 and on the estimated future equity value of JigoCity during such period calculated on multiple scenarios using a Monte Carlo simulation methodology. The fair value measurement of the acquisition-related contingent consideration is based on unobservable inputs that are supported by little or no market activity and reflect FriendFinder's own assumptions. Key assumptions include expected volatility in both the value of JigoCity and in FriendFinder's common stock during the above period. Changes in the fair value of the contingent consideration subsequent to the acquisition date will be recognized in earnings until the liability is eliminated or settled. Such change through December 31, 2011 amounted to a $920,000 increase in the liability.

The acquisition date fair value of consideration transferred (the "purchase price") was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated purchase price recorded as goodwill. Factors that contributed to a purchase price resulting in the recognition of goodwill include JigoCity's strategic fit into the Company's internet segment and the resulting anticipated benefits from utilization of the Company's user base and website traffic in foreign markets to enhance JigoCity's social commerce revenue.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Current assets	$	752
Identifiable intangible assets		3,336
Goodwill		4,290
Other non-current assets		551
Total assets acquired		8,929
Current liabilities		1,429
Net assets acquired	$	7,500

Of the $3.3 million of acquired identifiable intangible assets, $1.5 million was assigned to subscriber relationships, $0.3 million was assigned to vendor relationships, $0.4 million was assigned to trade names and $1.1 million was assigned to developed technology. Fair value amounts were determined using an income approach for subscriber relationships and trade names, and a cost approach for vendor relationships and developed technology. Such intangible assets are expected to have estimated useful lives of between 2 and 4 years and a weighted average useful life of approximately 3 years. Goodwill, which is not deductible for tax purposes, was assigned to the internet segment.

The operating results of JigoCity are included in the accompanying consolidated statement of operations from the date of acquisition as discontinued operations as discussed below.

During the first quarter of 2012, the Company took steps to streamline its operations and, in connection therewith, closed JigoCity operations located in China, Singapore, Hong Kong, Malaysia and Australia. In the second quarter of 2012, the Company decided to either sell or discontinue its one remaining JigoCity operation in Taiwan and on August 1, 2012, FriendFinder sold all of the shares of its wholly owned subsidiary, JGC Holdings Limited ("JGC"), a British Virgin Islands Business Company that owns the operations of JigoCity to JGC Acquisition LLC (the "Purchaser"), an entity controlled by Anthony R. Bobulinski, the former owner of JigoCity. FriendFinder sold the shares for cash consideration in the amount of $1.00 and cancellation of warrants exercisable into 4,111,400 shares of common stock of the Company with exercise prices ranging from $7.00-$18.00 per share originally issued when the Company acquired the operations of JigoCity. Such warrants were valued at approximately $17,000 at date of sale using a Black Scholes option pricing model and the following assumptions: price of the Company’s stock of $0.85; dividend yield of 0%; expected volatility of 30%; a risk-free interest rate of 1.67% and remaining term of 9.5 years. Additionally, FriendFinder agreed to reimburse Purchaser up to an aggregate amount of $2.16 million for legitimate business expenses of the Purchaser or JGC for the time period from July 2012 through June 2013. The Purchaser has agreed to indemnify and hold harmless FriendFinder and its affiliates in certain circumstances. As part of the sale transaction, the equity put agreement entered in connection with FriendFinder's acquisition of JigoCity was terminated. As a result thereof, the $1,400,000 carrying value of the liability related to contingent consideration (included in accrued expenses and other liabilities in 2011) was recognized as income in 2012.

Note I — Acquisitions and Dispositions (continued)

The Company incurred a loss of approximately $9.3 million on the sale including the $2.1 million of post-closing liabilities for which FriendFinder is obligated and a $336,000 cumulative translation loss which was reclassified from accumulated other comprehensive loss, which is recorded as discontinued operations. The results of operations of the JigoCity locations were classified as discontinued operations in the accompanying 2012 consolidated statement of operations resulting in a loss of approximately $13.6 million, including the loss on sale of $9.3 million which also includes a write-off of goodwill of $4.2 million and other assets, including intangibles, of $2.4 million attributable to such locations. In addition, JigoCity operations in 2011 which resulted in a loss of $3,289,000 from the date of acquisition, are reclassified as discontinued operations. Revenues of JigoCity amounted to $228,000 in 2012 and $900,000 in 2011.

Note J — Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following (in thousands):

	December 31, 2012		December 31, 2011	
Accrued liability related to VAT	$	41,769	$	41,011
Chargeback reserve		872		785
Compensation and benefits		3,058		1,785
Accrued marketing		1,287		1,406
Legal and related expenses		449		475
Accrued interest		1,212		8,354
Accrued commissions to third party websites		5,749		4,067
Accrued loss related to claim in arbitration (see Note Q (a))		–		2,000
Acquisition related contingent consideration		–		1,400
Other		7,831		7,647
	$	62,227	$	68,930

Effective July 1, 2003, as a result of a change in the law in the European Union, Various was required to collect VAT from customers in connection with their use of internet services in the European Union provided by Various and remit the VAT to the taxing authorities in the various European Union countries. As Various did not separately charge its customers for, or remit, the VAT, a liability has been recorded at the date of acquisition to reflect the estimated VAT which should have been collected and remitted on Various' revenue derived from the various European Union countries since July 1, 2003 or other local implementation date. In addition, a liability has been recorded at the date of acquisition for interest and penalties related to the unremitted VAT and failure to file tax returns. Effective July 2008, the Company registered with the European Union and on July 29, 2008 began separately charging VAT to its customers. The aggregate liability included in accrued expenses and other liabilities, which is denominated in Euros, amounted to $41,769,000 and $41,011,000 at December 31, 2012 and 2011, respectively, and includes VAT ($21,840,000) and $20,294,000), interest ($11,927,000 and $12,696,000) and penalties ($8,002,000 and $8,020,000). The consolidated statements of operations for the years ended December 31, 2012, 2011 and 2010, respectively, include foreign currency transaction (loss) gain of $(466,000), $516,000 and $610,000 related to the liability, and interest related to VAT of $1,660,000, $1,808,000 and $2,293,000.

As of December 31, 2012, the Company has reached settlement with the taxing authority of certain European Union countries related to VAT for periods prior to July 1, 2008 and has not yet reached settlement or has reached partial settlement, with the taxing authority in the following European Union countries: Cyprus, Germany, Italy, Luxembourg, Netherlands, Portugal, and Sweden. The liability as of December 31, 2012, includes $16,984,000 for which settlements of $6,353,000 were reached with certain countries, and $2,804,000 in VAT liability related to current VAT charged to customers. Settlements have not been reached for the $21,981,000 balance of the VAT liability.

On October 8, 2009, the Company further agreed that if the costs of eliminating the pre-acquisition VAT liabilities are less than $29 million, then the principal of the Subordinated Convertible Notes issued to the former owners of Various would be increased for the unused portion of the $29 million plus interest on such difference. Gain on settlement of VAT liabilities will be recognized upon the Company satisfying the conditions of the settlement and to the extent the aggregate carrying amount of settled VAT liabilities exceeds the agreed settlement amounts and the then potential maximum increase in the principal of the Subordinated Convertible Notes. As disclosed in Note K in October 2010, the Convertible Subordinated Notes were exchanged for Non-Cash Pay Second Lien Notes and in connection therewith, the Company agreed that the principal increase would apply to the Non-Cash Pay Second Lien Notes.

19

Note J — Accrued Expenses and Other Liabilities (continued)

Various had been previously notified that the German tax authorities and the Office of the District Attorney in Bonn had been investigating Various' former Chief Executive Officer for alleged intentional evasion of VAT on revenue collected from customers located in Germany commencing in 2003. On April 18, 2008, a court in Germany granted authorities a search and seizure order that allowed them to seize documents from Various' office located in Germany in order to determine the amount of revenue subject to VAT. The German tax authority has attempted unsuccessfully to freeze assets in bank accounts maintained by subsidiaries of Various in Germany, but did freeze assets in the amount of €610,343, held by Various' credit card processor located in the Netherlands to secure the VAT estimated by the revenue tax authorities to be due from Various from revenue from internet websites in Germany. At December 31, 2012 and 2011, the frozen Euros are included in restricted cash in the approximate amount of $805,000 and $790,000, respectively.

Note K — Long-Term Debt

Long-term debt consists of the following (in thousands):

	December 31, 2012		December 31, 2011	
	Principal	Unamortized Discount	Principal	Unamortized Discount
Debt issued by FriendFinder and INI on October 27, 2010 (a)				
14% New First Lien Notes due 2013 (b)(e)(f)	$ 212,988	$ 2,408	$ 228,375	$ 5,602
14% Cash Pay Second Lien Notes due 2013 (c)(e)(f)	9,622	59	10,317	138
11.5% Non-Cash Pay Second Lien Notes, due 2014 (d)(e)(f)	297,911	18,375	265,273	28,519
Other (g)	1,250	9	1,250	171
	$ 521,771	$ 20,851	$ 505,215	$ 34,430
Less: unamortized discount	(20,851)		(34,430)	
Less: long-term debt maturing in the following twelve months and/or in default, net of unamortized discount of $20,851 and $260, respectively	(500,920)		(8,270)	
	$ -		$ 462,515	

(a) On October 27, 2010, $305,000,000 principal amount of 14% Senior Secured Notes due 2013 were co-issued by FriendFinder and its wholly-owned subsidiary Interactive Network, Inc ("INI"), the parent of Various (the "New First Lien Notes"), of which (a) $200,185,000 was exchanged for $130,485,000 outstanding principal amount of First Lien Notes, $49,361,000 outstanding principal amount of Second Lien Notes and $14,551,000 outstanding principal amount of Senior Secured Notes, (b) $91,400,000 was issued for cash proceeds of $89,572,000 before payment of related fees and expenses of $5,834,000 and (c) $13,415,000 was issued to pay commitment fees to the holders of First Lien Notes and Second Lien Notes. Cash of $86,237,000 was used to redeem $36,608,000 outstanding principal amount of First Lien Notes at 102% of principal, $30,639,000 outstanding principal amount of Second Lien Notes (representing the remaining outstanding principal amounts of First Lien Notes and Second Lien Notes) and $18,258,000 outstanding principal amount of Senior Secured Notes. Cash was also used to pay $4,132,000 of accrued interest on the exchanged and redeemed notes, an $825,000 redemption premium on certain exchanged First Lien Notes and $435,000 in commitment fees to certain noteholders.

The remaining $13,502,000 outstanding principal amount of Senior Secured Notes were exchanged for $13,778,000 principal amount of 14% Cash Pay Second Lien Notes due 2013 co-issued by FriendFinder and INI (the “Cash Pay Second Lien Notes”). Subordinated Convertible Notes and Subordinated Term Notes, with outstanding principal amounts of $180,184,000 and $42,811,000, respectively, together with accrued interest of $9,462,000, were exchanged for $232,457,000 principal amount of 11.5% Non-Cash Pay Second Lien Notes due 2014 co-issued by FriendFinder and INI (the “Non-Cash Pay Second Lien Notes”).

The Company has determined that the New First Lien Notes are not substantially different from the outstanding First Lien Notes and Second Lien Notes for which they were exchanged, nor are the Non-Cash Pay Second Lien Notes substantially different from the outstanding Subordinated Convertible Notes for which they were exchanged, based on the less than 10% difference in present values of cash flows of the respective debt instruments and, therefore, such exchanges are accounted for as if the outstanding notes were not extinguished. Accordingly, a new effective interest rate has been determined for the outstanding notes based on the carrying amount of such notes and the revised cash flows of the newly issued notes. In connection therewith, commitment fees paid to the note holders, together with an allocable portion of existing unamortized discount, debt issuance and modification costs will be amortized as an adjustment of interest expense over the remaining term of the new notes using the effective interest method. The effective interest rate on the New First Lien Notes and on the Non-Cash Pay Second Lien Notes which were exchanged for the Subordinated Convertible Notes is 19.0% and 14.3%, respectively. Private placement fees related to the New First Lien Notes, together with legal and other fees aggregating $4,562,000 allocated to the exchanges, were charged to other finance expenses in the accompanying consolidated statement of operations.

20

Note K — Long-Term Debt (continued)

The Company has determined that the New First Lien Notes and Cash Pay Second Lien Notes are substantially different than the outstanding $28,053,000 principal amount of Senior Secured Notes for which they were exchanged based on the more than 10% difference in present values of cash flows of the respective debt instruments and, accordingly, the exchanges are accounted for as an extinguishment of the Senior Secured Notes. The Company recorded a net pre-tax loss on debt extinguishment of $10.5 million related to such exchanged Senior Secured Notes and to the Senior Secured Notes and First Lien Notes and Second Lien Notes redeemed for cash. The loss is based on the excess of the fair value of the new notes issued, which was determined to be their issue price of $28,053,000 and cash paid on redemption over the carrying amountsof the extinguished notes. In addition, the loss includes the writeoff of unamortized costs and fees aggregating $8,646,000 related to the notes which were extinguished.

The Company has also determined that the Non-Cash Pay Second Lien Notes are substantially different than the non-convertible Subordinated Term Notes for which they were exchanged based on the conversion feature in the new notes and, accordingly, the exchange is accounted for as an extinguishment of the Subordinated Term Notes. The Company determined that the estimated fair value of the $48,760,000 principal amount of Non-Cash Pay Second Lien Notes exchanged was $45,726,000, resulting in an approximate effective interest rate of 11.9%, and discount of $3,034,000 which resulted in debt extinguishment gain of $3,034,000.

(b) The New First Lien Notes, approximately $71.8 million principal amount of which are held by a more than 10% stockholder at December 31, 2012, were issued with an original issue discount of $6.1 million, or 2.0%. The notes mature on September 30, 2013 and accrue interest at a rate per annum equal to 14.0%. Interest on the notes is payable quarterly on March 31, June 30, September 30 and December 31 of each year. Principal on the New First Lien Notes was payable quarterly to the extent of 75% of Excess Cash Flow, as defined, at 102% of principal, subject to the pro-rata sharing with the Cash Pay Second Lien Notes. In March 2012, the Excess Cash Flow percentage and the percentage of principal repaid was increased to 85% and 110%, respectively. The New First Lien Notes are guaranteed by domestic subsidiaries of FriendFinder and INI and are collateralized by a first-priority lien on all of the Company's assets as well as a pledge of stock of subsidiaries. The New First Lien Notes are redeemable prior to maturity at the option of the Company, in whole but not in part, at 110% of principal, plus accrued and unpaid interest. Note holders have the option of requiring the Company to repay the New First Lien Notes and Cash Pay Second Lien Notes in full upon a Change of Control, as defined, at 110% of principal. The Company shall also repay the New First Lien Notes and, in certain circumstances, the Cash Pay Second Lien Notes, with proceeds received from any debt or equity financing (including a secondary offering) and asset sales of more than $25 million at 110% of principal, and with proceeds from other asset sales, insurance claims, condemnation and other extraordinary cash receipts at principal, subject to certain exceptions. On May 19, 2011, the Company redeemed $37,832,000 principal amount of New First Lien notes and $1,709,000 principal amount of Cash Pay Second Lien notes from the net proceeds of the IPO and incurred a loss on extinguishment of debt of approximately $7.3 million consisting of a redemption premium of $3.9 million and write-off of discount and deferred offering costs of $3.4 million.

See (f) below.

(c) The Cash Pay Second Lien Notes, all of which were issued to entities controlled by stockholders who are also directors of the Company, were issued with an original issue discount of $276,000, or 2%, mature on September 30, 2013 and have identical terms to those of the New First Lien Notes, except as to matters regarding collateral, subordination, enforcement and voting. The Cash Pay Second Lien Notes are collateralized by a fully subordinated second lien on substantially all of the assets of the Company, pari passu with the Non-Cash Pay Second Lien Notes, and will vote with the New First Lien Notes on a dollar for dollar basis on all matters except for matters relating to collateral, liens and enforcement of rights and remedies. As to such matters, the Cash Pay Second Lien

Notes will vote with the Non-Cash Pay Second Lien Notes.

See (f) below.

(d) The Non-Cash Pay Second Lien Notes, of which approximately $223.0 million principal amount are held by a more than 10% stockholder at December 31, 2012, mature on April 30, 2014 and bear interest at 11.5%, payable semi-annually on June 30 and December 31, which may be paid in additional notes at the Company’s option. While the New First Lien Notes are in place, interest must be paid with additional notes. During 2011 and 2012, interest amounting to $28,063,000 and $32,638,000, respectively was paid through the issuance of additional Non-Cash Pay Second Lien Notes. The Non-Cash Pay Second Lien Notes are guaranteed by the domestic subsidiaries of FriendFinder and INI and collateralized by a second priority lien on all of the Company’s assets and a pledge of the stock of subsidiaries; however, such security interest is subordinate to the prior payment of the New First Lien Notes. The Non-Cash Pay Second Lien Notes are redeemable, at the option of the Company, in whole but not in part, at 100% of principal plus accrued and unpaid interest. Upon the payment in full of the New First Lien Notes, principal on the Non-Cash Pay Second Lien Notes is payable quarterly to the extent of 75% of Excess Cash Flow, as defined, at 102% of principal subject to pro-rata sharing with the Cash Pay Second Lien Notes. Noteholders have the option of requiring the Company to repay the Non-Cash Pay Second Lien Notes in full upon a Change of Control, as defined, at 110% of principal plus accrued and unpaid interest. If the New First Lien Notes are paid in full, the Company shall repay the Non-Cash Pay Second Lien Notes and Cash Pay Second Lien Notes on a pro-rata basis with proceeds received from any debt or equity financing (including a secondary offering), and asset sales of more than $25 million at 110% of principal plus accrued and unpaid interest and with proceeds of other asset sales, insurance claims, condemnation and other extraordinary cash receipts at principal, subject to certain exceptions.

Note K — Long-Term Debt (continued)

As a result of the consummation of an Initial Public Offering ("IPO") in May 2011, the Non-Cash Pay Second Lien Notes became convertible into 8,310,763 shares of common stock at an IPO price of $10.00 per share. As a result thereof, a beneficial conversion feature of $14,150,000 related to the Non-Cash Pay Second Lien Notes was recognized and recorded as a discount on the notes with a corresponding increase to additional paid-in capital. In addition, a related deferred tax liability of approximately $5.7 million resulting from the difference between the carrying value of the notes and their tax basis attributable to recording the note discount was recognized with a corresponding reduction to additional paid-in capital. The beneficial conversion feature was measured based on the difference, on the deemed issuance date of the notes, between (a) the adjusted conversion price of the notes, calculated based on the fair value of the notes (which was less than stated principal) and (b) the estimated fair value of the Company's common stock, multiplied by the 8,310,763 shares obtainable on conversion.

As described in Note J, if the costs of eliminating the pre-acquisition VAT liabilities is less than $29 million, exclusive of costs paid from an escrow fund, then the principal amount of the Non-Cash Pay Second Lien Notes will be increased by the issuance of additional such notes for the unused portion of the $29 million, plus interest at 6% on the increased principal from the date of acquisition.

See (f) below.

(e) As described above, the New First Lien Notes, the Cash Pay Second Lien Notes and the Non-Cash Pay Second Lien Notes were co-issued by FriendFinder and its wholly-owned subsidiary INI and guaranteed by their domestic subsidiaries, which are 100% owned directly or indirectly by FriendFinder. FriendFinder and INI are holding companies and have no independent assets or operations. The subsidiary guarantees are full and unconditional and joint and several. Non-guarantor subsidiaries consisted of wholly-owned foreign subsidiaries of JigoCity which were acquired in September 2011 and sold in August 2012 (see Note I)

The Company had agreed to consummate an exchange offer pursuant to an effective registration statement to be filed with the SEC to allow the holders of the New First Lien Notes, Cash Pay Second Lien Notes and Non-Cash Pay Second Lien Notes to exchange their notes for a new issue of substantially identical notes. In addition, the Company has agreed to file, under certain circumstances, a shelf registration statement to cover resales of the New First Lien Notes, Cash Pay Second Lien Notes and Non-Cash Pay Second Lien Notes. On August 1, 2011, the Company filed a registration statement on Form S-4 with the SEC relating to the exchange offer. In October, 2011, due to interpretations of applicable laws and regulations from the staff of the SEC which did not allow an exchange offer for the above referenced notes, the Company withdrew its exchange offer. On October 17, 2011, the Company filed a registration statement on Form S-1 to cover re-sales of the New First Lien Notes, Cash Pay Second Lien Notes and Non-Cash Pay Second Lien Notes. The registration statement was declared effective by the SEC on December 19, 2011. The Company has agreed under the indentures governing the above referenced notes to use its reasonable best efforts, subject to applicable law, to keep the registration statement continuously effective until the earlier to occur of (A) the third anniversary of the issue date of the respective notes and (B) such time as there are no notes outstanding. In the event that the Company fails to satisfy such requirement, the interest rate on the New First Lien Notes, Cash Pay Second Lien Notes and Non-Cash Pay Second Lien Notes will be increased by 3.5 percentage points.

(f) The New First Lien Notes, the Cash Pay Second Lien Notes and Non-Cash Pay Second Lien Notes (1) require the Company to maintain minimum specified levels of EBITDA and liquidity and financial ratios, including debt and coverage ratios, all as defined; (2) provides for certain limitations including limits on indebtedness, lease obligations, VAT payments and investments; and (3) prohibits dividends and other payments with respect to the Company's equity securities.The New First Lien Notes, the Cash Pay Second Lien Notes and Non-Cash Pay Second Lien Notes (1) require the Company to maintain minimum specified levels of EBITDA and liquidity and financial ratios, including debt and coverage ratios, all as defined; (2) provides for certain limitations including limits on indebtedness, lease obligations, VAT payments and investments; and (3) prohibits dividends and other payments with respect to the Company's equity securities.

Note K — Long-Term Debt (continued)

On March 27, 2012, the Company entered into Supplemental Indentures with the Trustee under the Company's New First Lien Notes and Cash Pay Second Lien Notes. The Supplemental Indentures were approved by the Required Holders and provided for modifications which were substantially the same under each such indenture. Each Supplemental Indenture provides that the Consolidated EBITDA minimum requirement (as defined) be reset to provide that for the period of any four consecutive fiscal quarters, Consolidated EBITDA shall not be less than $65 million through December 31, 2012, not less than $75 million through March 31, 2013, and not less than $80 million through June 30, 2013. Consolidated EBITDA for the fiscal quarter ending September 30, 2012 shall not be less than $16 million and the combined Consolidated EBITDA for the third and fourth fiscal quarters of 2012 (ending September 30, 2012 and December 31, 2012, respectively) shall not be less than $36 million. In addition, starting with the fiscal quarter ending March 31, 2013, the average of any two consecutive quarters going forward shall not be less than $20 million. A consent fee of 1% of the current outstanding amount of notes under each indenture, or $2.3 million, was paid on April 2, 2012. The Supplemental Indentures also provide that the minimum amount of Qualified Cash (as defined) of the Issuers and their respective Subsidiaries shall not be less than (i) $10 million over a 15 calendar day rolling average period and (ii) $5 million at any time; provided, however, that for a six month period commencing on the date the consent fee is paid, such minimum amount of Qualified Cash required under this covenant shall be reduced by an amount equal to the consent fee. The Minimum Consolidated Coverage Ratio, Total Debt Ratio and First Lien Debt Ratio, all as defined, were reset based on the changes to the minimum Consolidated EBITDA requirements set forth above. The Excess Cash Flow definition was amended to increase the Excess Cash Flow prepayment percentage to 85%, except that the Company may, in its sole discretion, forego applying an amount of up to 5% of Excess Cash Flow to the prepayment percentage provided the Issuers purchase an equivalent amount of notes in the open market prior to the due date of such Excess Cash Flow payment. Such principal repayments from Excess Cash Flow shall be paid in cash equal to 110% of the principal amount repaid, an increase from 102%. Cash compensation to each person that is an owner or beneficial holder of 5% of the stock of the Company is limited to $500,000 per year. The requirement that the Company maintain a debt rating was removed and the cross default provision was amended so that a covenant violation under the 11.5% Non-Cash Pay Second Lien Notes due 2014 would not, under certain circumstances, cause a default under the New First Lien Notes or the Cash Pay Second Lien Notes. Finally, certain other provisions in each of the indentures were modified, including restrictions on incurrence of capital leases, open market purchases of the notes by the Company, issuance of stock dividends and asset holdings of foreign subsidiaries.

The Company has determined that the New First Lien Notes and Cash Pay Second Lien Notes, as modified, were not substantially different than such notes prior to the modifications based on the less than 10% difference in present values of revised cash flows, including the consent fee, as compared with the remaining cash flows under the terms of the notes prior to modification and, accordingly, the modifications were accounted for as if the New First Lien Notes and Cash Pay Second Lien Notes were not extinguished. Accordingly, the $2.3 million consent fee has been capitalized as unamortized debt expense and is being amortized as an adjustment to interest expense over the remaining terms of the modified notes using the interest method.

The Company did not make Excess Cash Flow payments of $11.3 million due in November 5, 2012 and $10.8 million due February 4, 2013 applicable to the quarters ended September 30 and December 31, 2012, respectively, which constitute events of default under the New First Lien Notes and Cash Pay Second Lien Notes. As such, post-default interest of 17.5% accrues commencing November 5, 2012 the default date. The Company has received forbearance agreements from over 80% of its senior lenders and all of its Cash Pay Second Lien lenders with respect to such events of default in exchange for a forbearance fee aggregating $1.1 million equal to one-half of a percent (0.5%) of the outstanding principal amount of the notes held by such lender. The forbearance agreements, as amended on February 4, 2013, remain in place until the earlier of May 6, 2013, a default other than for not making the Excess Cash Flow payments due in November 2012 or February 2013, acceleration by the Trustee, or certain other circumstances.

The indenture governing the Non-Cash Second Lien Notes was not modified and as a result, the Company did not comply with the minimum EBITDA requirement (as defined) of $90 million for the four consecutive fiscal quarters ended March 31, 2012, June 30, 2012, September 30, 2012 and December 31, 2012 or the maximum Total Debt Ratio (as defined) for such periods of 6.1:1.0. Further, during the quarters ended June 30, 2012, September 30, 2012 and December 31, 2012, the Company violated certain other debt ratios. In addition, from time to time, the Company did not meet the minimum liquidity requirement of $10 million of Qualified Cash and did not meet the reporting requirement with respect thereto. Under the terms of an Intercreditor and Subordination Agreement among the Trustees under the New First Lien Note Indenture, the Cash Pay Second Lien Note Indenture and the Non-Cash Pay Second Lien Indenture, neither the Trustee under the Non-Cash Pay Second Lien Indenture nor the holders of Non-Cash Pay Second Lien Notes may accelerate the Notes or take any other Enforcement Action (as defined) until the New First Lien Notes are paid in full.

On May 11, 2012, the Trustee of the Non-Cash Pay Second Lien Notes and the Required Holders thereof waived the EBITDA and the Total Debt Ratio covenant violations for the quarter ended March 31, 2012 and minimum liquidity requirement covenant violations through August 14, 2012, as well as the failure to timely comply with the reporting requirement thereof. On August 10, 2012, the Company received a waiver from the Trustee and Required Holders related to its failure to meet the minimum EBITDA requirement as well as the Total Debt and other ratios for the quarter ended June 30, 2012 and the minimum liquidity requirement waiver was extended through November 14, 2012. As a result of receiving these waivers, the Company was not subject to the post-default interest rate of 15%. The Company did not receive a waiver from the Trustee and Required Holders related to its failure to meet the minimum EBITDA requirement as well as the Total Debt and other ratios for the quarters ended September 30, 2012 and December 31, 2012 and the minimum liquidity requirement waiver was not extended. Accordingly, the Company is subject to the post-default interest rate of 15% as of November 14, 2012. The Non-Cash Pay Second Lien Notes are classified as current liabilities at December 31, 2012, due to the fact that these notes are in default at such date and the New First Lien Notes and Cash Pay Second Lien Notes mature on September 30, 2013; or are subject to maturity date acceleration prior thereto upon expiration or termination of the forbearance agreements. Assuming repayment of such notes upon maturity the Non-Cash Pay Second Lien Notes can be accelerated thereafter.

Note K — Long-Term Debt (continued)

(g) In connection with the restructuring of Subordinated Convertible Notes issued in connection with the acquisition of Various, the Company agreed to pay $3.2 million of fees to the former owners of Various of which $1 million is payable in each of 2010 through 2012 and $250,000 is payable in the first quarter of 2013. The Company has not made the 2012 or 2013 payment. The obligation was recorded at a present value of $2.3 million using a discount rate of 15%.

Note L — Liability Related to Warrants

In conjunction with its August 2005 issuance of Senior Secured Notes, the Company issued warrants to purchase 501,663 shares of the Company's common stock (of which 476,573 were exercisable at $6.20 per share and 25,090 were exercisable at $10.25 per share) that contained a provision that required a reduction of the exercise price if certain equity events occur. Under the provisions of authoritative accounting guidance which became effective for the Company at January 1, 2009, such a reset provision no longer makes the warrants eligible for equity classification and as such, effective January 1, 2009, the Company classified these warrants as a liability measured at fair value with changes in fair value reflected in operations. In connection therewith, the statement of operations for the years ended December 31, 2011 and 2010 reflects a gain of, $272,000 and $38,000, respectively.

The warrants, which were exercisable until August 2015, provided that they would terminate if not exercised concurrently with the consummation of an IPO. On May 16, 2011, concurrently with the consummation of the Company's IPO, warrants to issue 457,843 shares of common stock at $6.20 per share were net settled, whereby 174,246 shares of common stock were issued upon exercise, equivalent to the intrinsic value of the warrants based on the IPO price of $10 per share, and the Company did not receive any cash proceeds. In addition, warrants to acquire 24,104 common shares at $10.25 per share were terminated as they were not exercised. Accordingly, in May 2011, the liability related to the warrants was eliminated with the carrying value of $3,168,000 related to the exercised warrants transferred to capital in excess of par value and the carrying value of $119,000 related to the terminated warrants recorded as non-operating income.

The Company's warrants were measured at fair value based on the binomial options pricing model using valuation inputs which are based on management's internal assumptions (which are not readily observable) at May 16, 2011 and December 31, 2010 respectively as follows: 1) dividend yield of 0% and 0%; 2) volatility of 43.2%; and 43.3%, 3) risk-free interest rate of 2.3%; and 1.9%; and 4) expected life of 4.25 years and 4.50 years.

Note M — Preferred Stock, Common Stock and Warrants

On January 25, 2010, the Company amended and restated the certificate of designation for the Series A Convertible Preferred Stock to eliminate the Company's obligation to obtain the consent of certain holders of the Series A Preferred (or an affiliate of such holders) before taking certain actions, including, among other things, purchasing or acquiring any capital stock of the Company, effecting a change of control, or declaring or paying dividends. In addition, among other changes, redemption payments, in the event of a change of control or a qualified IPO, and preemptive rights were eliminated. In addition, on January 25, 2010, the Company also amended and restated the certificate of designation for the Series B Convertible Preferred Stock to, among other changes, eliminate redemption payments in the event of a change of control or a qualified IPO and also eliminate preemptive rights.

As of December 31, 2009, upon change of control, as defined, or a qualified IPO, as defined, the holders of both Series A Preferred and Series B Preferred were entitled to be paid out of the assets of the Company an amount per share equal to their respective Liquidation Preference Amount, as defined, in exchange for their preferred shares. As a result, the Series A Preferred and Series B Preferred were classified as "temporary equity in the balance sheet as of

December 31, 2009 as the Company could have been required to redeem thje preferred stock for cash. As the preferred stock was not currently redeemable at December 31, 2009 it was carried at its original issue price, which represents the minimum redemption amount at such date. In January 2010, as a result of the amendments and restatements of the certificates of designation for the convertible preferred stocks described above, the carrying amount of the preferred stock was reclassified to permanent equity.

Note M — Preferred Stock, Common Stock and Warrants (continued)

On May 16, 2011, the Company issued 5,000,000 shares of common stock at a price of $10.00 per share and completed its IPO. The Company raised gross proceeds of $50.0 million, less underwriting fees and commissions of 7.25% of the gross proceeds, or $3.6 million, and incurred other offering expenses of $2.9 million to be paid from the proceeds of the offering, resulting in $43.5 million of net proceeds. In addition, the Company had incurred and paid as of December 31, 2010, $13.3 million of offering costs, which were included in deferred offering costs in the balance sheet at December 31, 2010. In connection with the completion of the IPO, all offering costs were charged to capital in excess of par value.

In connection with the consummation of the IPO (i) 378,579 outstanding shares of Series A Convertible Preferred Stock were converted into 428,668 shares of common stock (ii) all of the outstanding shares of Series B Convertible Preferred Stock were converted into 8,444,853 shares of common stock (iii) 1,806,860 shares of Series B Common Stock were exchanged for 1,806,860 shares of common stock and (iv) 5,734,918 shares of common stock were issued upon exercise of outstanding warrants. Subsequent to the IPO, 1,388,124 outstanding shares of Series A Convertible Preferred Stock were converted into 1,571,784 shares of common stock.

In August 2009, the Company received an informal demand from an existing holder of the Series A Convertible Preferred Stock and Series B Convertible Preferred Stock claiming a right to warrants exercisable at $0.0002 per share for approximately 800,000 shares of common stock in satisfaction of the conversion price adjustment with respect to its Series A Convertible Preferred stock in connection with the Company’s issuance of Series B Convertible Preferred Stock. On October 27, 2010, this potential claim was resolved as the parties entered into a Settlement and Mutual Release pursuant to which the Company made a cash payment of $985,000 which was charged to capital in excess of par value.

On July 12, 2011, in connection with the acquisition of PerfectMatch.com the Company issued as partial consideration 126,925 shares of common stock (see Note I).

On September 7, 2011, in connection with the acquisition of JigoCity the Company issued 1,555,555 shares of common stock and warrants exercisable into 6,436,851 shares of common stock (see Note I).

In January and April 2012, warrants to purchase 235,833 and 49,784 shares of common stock at $0.0002 per share were exercised.

On August 1, 2012, warrants exercisable into 4,111,400 shares of common stock of the Company with exercise prices ranging from $7.00-$18.00 per share originally issued when the Company acquired the operations of JigoCity were cancelled in connection with the sale of the remaining JigoCity operations (see Note I).

As of December 31, 2012, there were 2,325,451 outstanding warrants to purchase voting common stock of the Company, issued in connection with the acquisition of JigoCity. These warrants have an expiration date of December 2021 and exercise prices between $5.00 and $18.00.

Note N — Stock Compensation Expense

On April 3, 2008, the Company’s Board of Directors adopted the 2008 Stock Option Plan (the “Plan”), which was amended and restated and approved by our stockholders on February 1, 2010. The maximum number of shares for which stock options may be granted under the Plan is 1,343,997 shares, subject to adjustment. Stock options may be issued to employees, directors and consultants, selected by the compensation committee of the Board of

Directors. Under the terms of the Plan, the options granted will expire no later than 10 years from the date of grant and will vest 20% on the first anniversary of the grant date and 20% on each succeeding four anniversaries of the grant date provided, however, that an optionee may exercise the vested portion of a stock option only after that date which is 18 months after May 16, 2011 the date of the Company's IPO. The exercise price of an option shall be the closing price of the common stock on a national exchange immediately preceding the date of grant. The exercise price per share of any stock option agreement issued prior to May 16, 2011 was set at $10.00 per share, representing the price per share that the Company's common stock was sold to the public pursuant to the IPO.

Upon the successful completion of the IPO on May 16, 2011, compensation cost was accrued for each vesting tranche over the requisite service period commencing on the date the options were granted and ending on the later of the vesting date or 18 months after the date of the IPO. Accordingly, in the quarter ended June 30, 2011, a cumulative adjustment of approximately $2 million was made to record compensation cost which accrued prior to May 16, 2011, based on the fair value of the options on the IPO date. From the IPO date to December 31, 2011, additional compensation cost of approximately $1.7 million related to stock options was recorded. For the year ended December 31, 2012, compensation cost related to options amounted to $637,000.

Note N — Stock Compensation Expense (continued)

A summary of the changes in outstanding stock options for the twelve months ended December 31, 2012 follows:

	Shares		Weighted Average Exercise Price		Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Terms (Years)
Options outstanding at January 1, 2012	590,250	$	10.00	$	8.38	6.58
Granted	622,918	$	1.39	$	0.86	9.08
Forfeited	(79,250)	$	7.43	$	6.13	—
Options outstanding at December 31, 2012	1,133,918	$	5.47	$	4.43	7.41
Options exercisable at December 31, 2012	422,300		10.00		—	5.54
Options exercisable and expected to be exercisable at December 31, 2012	947,056	$	5.89		—	7.24

Outstanding stock options had no intrinsic value as of December 31, 2012. As of December 31, 2012, there was approximately $471,000 of unrecognized compensation cost related to outstanding stock options which will be recognized over a weighted average period of 3.6 years.

The grant date fair value for options outstanding at January 1, 2012 was estimated on the IPO date using the Black-Scholes option pricing model using the following assumptions: dividend yield of 0%; expected volatility of 106%; a risk-free interest rate of 2.31%, and expected life of 6.5 years. For the options granted in the year ended December 31, 2012 the following assumptions were used: dividend yield of 0%; expected volatility of 63.89%; a risk-free interest rate of 1.49%, and expected life of 6.5 years. The expected dividend yield is based on the Company’s historical dividend yield. The expected volatility was based on the average of historical and implied volatilities for a period comparable to the expected life of the options of certain entities considered to be similar to the Company. The expected life is based on the simplified expected term calculation permitted by the SEC which defines the expected life as the average of the contractual term of the options and the weighted-average vesting period for all option tranches. The risk-free interest rate is based on the annual yield on the grant date of a zero-coupon U.S. Treasury bond the maturity of which equals the option’s expected life.

On March 23, 2009, the Company’s Board of Directors approved a 2009 Restricted Stock Plan (the “Restricted Plan”) which became effective upon the consummation of the Company’s IPO. The aggregate number of shares of restricted stock that may be granted under the plan is limited to one percent of the fully-diluted equity of the Company on the date the IPO was consummated, or 393,875 shares. The Compensation Committee of the Board of Directors is charged with administering the Restricted Plan and all directors, employees and consultants of FriendFinder or of any subsidiary are eligible to receive restricted stock under the Restricted Plan. Restricted stock granted under the Restricted Plan will generally vest on the third anniversary of the grant date, subject to the recipient’s continued service. Restricted shares will also vest prior to the third anniversary of the grant date if the recipient’s employment has been terminated under certain conditions. Upon the termination of a recipient’s employment, unvested shares of restricted stock will be subject to repurchase by the Company at a price equal to $.10 per share or in certain cases as determined by the Compensation Committee, the fair market value as the date of issuance. Prior to vesting, the restricted shares may not be sold, assigned, transferred or pledged by the recipient. As of December 31, 2011, no restricted shares had been granted under the Restricted Plan. In the year ended December 31, 2012, 380,000 restricted shares were granted under the Restricted Plan. As of December 31, 2012 there was $369,000 of total unrecognized compensation cost related to non-vested restricted stock compensation to be recognized over the 3 year vesting period. For the year ended December 31, 2012, there was $127,000 of compensation cost related to restricted shares.

On March 29, 2012, the Company's Board of Directors adopted the FriendFinder Networks Inc. 2012 Stock Incentive Plan (the "2012 Stock Incentive Plan"), which was approved by the Stockholders of the Company on May 30, 2012. The 2012 Stock Incentive Plan authorizes the Compensation Committee of the Board to grant stock options, restricted stock and other awards that are valued in whole or in part by reference to, or otherwise based on, the Company's common stock for up to 2,000,000 shares of common stock to our employees, officers, consultants and directors. Stock granted under the 2012 Stock Incentive Plan will generally vest between the third and fifth anniversary of the grant date, subject to the recipient's continued service. In the year ended December 31, 2012, 500,000 restricted shares and 250,000 unrestricted shares were granted under the 2012 Stock Incentive Plan. With respect to the unrestricted shares the Company withheld 62,500 shares to pay withholding taxes related to the award. In addition, the Company granted to its directors options to acquire 56,000 common shares at $1.16 per share. As of December 31, 2012, there was $279,000 of total unrecognized compensation cost related to the non-vested restricted shares and the 56,000 stock options to be recognized over the 3 to 5 year vesting periods. For the year ended December 31, 2012, there was $279,000 of compensation cost related to restricted and unrestricted shares.

Note O — Income Taxes

FriendFinder and its subsidiaries file a consolidated federal income tax return.

The components of the income tax benefit are as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Current:			
Federal	$ —	$ —	$ 162
State	37	36	630
Foreign	—	—	—
	$ 37	$ 36	$ 792
Deferred:			
Federal	$ (95)	$ (5,695)	$ (1,118)
State	(13)	(813)	(160)
Foreign	—	—	—
	(108)	(6,508)	(1,278)
Total tax benefit	$ (71)	$ (6,472)	$ (486)

A reconciliation between the benefit computed at the U.S. federal statutory rate on the pre-tax loss from continuing operations, all of which relates to domestic operations, to the tax benefit included in the consolidated statements of operations follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Tax benefit at federal statutory rate (35%)	$ 12,561	$ 12,014	$ 15,274
State taxes, net of federal effect	1,758	1,739	1,552
Net operating loss for which no tax benefit is recognized	(14,549)	(12,344)	(16,679)
Reduction of valuation allowance from recognition of deferred tax liability charged to additional paid in capital related to beneficial conversion feature on notes	—	5,660	—
Change in fair value of acquisition related contingent consideration	560	(368)	—
Gain on warrant liability	—	137	14
Non-deductible stock compensation expense	(162)	(884)	—
Other	(97)	518	326
Tax benefit	$ 71	$ 6,472	$ 486

Note O — Income Taxes (continued)

The components of deferred tax assets and liabilities are as follows (in thousands):

	December 31, 2012	December 31, 2011
Deferred tax assets:		
Net operating loss carryforwards	$ 42,634	$ 38,828
Allowance for doubtful accounts	466	462
Accrued liability related to VAT	11,794	11,749
Non-qualified stock compensation	731	484
Other	443	590
Gross deferred tax assets	56,068	52,113
Less valuation allowance	(48,506)	(36,017)
Net deferred tax assets	7,562	16,096
Deferred tax liabilities:		
Trademarks and domain names not subject to amortization	(22,366)	(22,754)
Intangible assets subject to amortization	(40)	(5,710)
Long-term debt	(6,423)	(9,465)
Property and equipment, including software	(1,099)	(921)
Other	(1,429)	(1,151)
	(31,357)	(40,001)
Net deferred tax liabilities	$ (23,795)	$ (23,905)

Amounts recognized in the consolidated balance sheets consist of (in thousands):

	December 31, 2012	December 31, 2011
Deferred tax asset — current	$ 1,844	$ 4,405
Deferred tax liability — non-current	(25,639)	(28,310)
Net deferred tax liability	$ (23,795)	$ (23,905)

At December 31, 2012, the Company had net operating loss carryforwards for federal income tax purposes of approximately $107 million available to offset future taxable income which expire at various dates from 2024 through 2031. The Company's ability to utilize approximately $9.0 million of such federal carryforwards related to the periods prior to the Company's exit from Chapter 11 reorganization is limited due to changes in the Company's ownership, as defined by federal tax regulations. In addition, utilization of the remainder of the carryforwards may be limited upon the occurrence of certain further ownership changes. Realization of the deferred tax assets is dependent on the existence of sufficient taxable income within the carryforward period, including future reversals of taxable temporary differences. The taxable temporary difference related to indefinite-lived trademarks and domain names, which have no tax basis, will reverse when such assets are disposed of or impaired. Because such period is not determinable and, based on available evidence, management was unable to determine that realization of the deferred tax assets was more likely than not, the Company has recorded a valuation allowance against a portion of its deferred tax assets at December 31, 2012 and 2011. As of both dates, approximately $4.8 million of the valuation allowance relates to pre-reorganization and acquired C corporation entities' net operating loss carryforwards.

The valuation allowance increased $12.5 million in 2012, $7.4 million in 2011 and $16.7 million in 2010.

The Company has applied the “more-likely-than-not” recognition threshold to all uncertain tax positions which resulted in unrecognized tax benefits in the accompanying financial statements at December 31, 2012, which were not material.

To the extent incurred, the Company classifies interest and penalties accrued on the underpayment of income taxes as interest expense and other expense, respectively.

The Company is no longer subject to federal, state, and local income tax examinations by tax authorities for years ending before 2009. However, to the extent utilized in the future, the Company’s net operating loss carryforwards originating in such years remain subject to examination.

Note P — Segment Information

The Company's reportable segments consist of Internet and Entertainment. Internet offers features and services that include social networking, online personals, premium content, live interactive videos and other services. Entertainment consists of publishing, licensing and studio production and distribution of original pictorial and video content. For the years ended December 31, 2011 and 2010, respectively, the Entertainment segment recorded revenue of $47,000 and $741,000 from advertising services provided to the Internet segment. Certain corporate expenses and interest expense are not allocated to segments. Segment assets include intangible, fixed, and all others identified with each segment. Unallocated corporate assets consist primarily of cash, certain prepaid items related to indebtedness and deferred tax assets not assigned to one of the segments. Information for the Company's segments is as follows:

	Year Ended December 31,		
	2012	2011	2010
Assets:			
Internet	$ 436,906	$ 475,578	$ 506,297
Entertainment	11,492	16,887	22,399
Unallocated corporate	3,755	899	4,121
Total	$ 452,153	$ 493,364	$ 532,817
Net revenue from external customers:			
Internet	$ 292,882	$ 308,321	$ 321,605
Entertainment	21,497	22,115	24,392
Total	$ 314,379	$ 330,436	$ 345,997
Income from operations:			
Internet	$ 63,021	$ 77,274	$ 76,142
Entertainment	(1,063)	(2,314)	1,140
Total segment income from operations	61,958	74,960	77,282
Unallocated corporate	(6,827)	(9,620)	(5,547)
Total	$ 55,131	$ 65,340	$ 71,735
AA Amortization of acquired intangibles and software (included in income from operations):			
Internet	$ 13,855	$ 15,759	$ 24,461
Entertainment	—	—	—
Unallocated corporate	—	—	—
Total	$ 13,855	$ 15,759	$ 24,461
Depreciation and other amortization (included in income from operations):			
Internet	$ 2,695	$ 3,715	$ 4,527
Entertainment	465	283	177
Unallocated corporate	–	—	—
Total	$ 3,160	$ 3,998	$ 4,704
Impairment of intangible assets (included in income from operations):			
Internet	$ —	$ —	$ —
Entertainment	970	2,600	4,660
Total	$ 970	$ 2,600	$ 4,660

Note P — Segment Information (continued)

Net revenues by service and product is as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Internet:			
Subscription based service	$ 201,761	$ 226,762	$ 245,174
Pay by usage service	90,766	81,554	76,321
Advertising and other	355	5	110
	292,882	308,321	321,605
Entertainment:			
Magazine	8,003	9,536	10,894
Video entertainment	11,135	10,388	10,892
Licensing	2,359	2,191	2,606
	21,497	22,115	24,392
Total revenues	$ 314,379	$ 330,436	$ 345,997

The Company derives revenue from international websites and other foreign sources. Revenues by geographical area based on where the customer is located or the subscription originates are as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Net revenue:			
United States	$ 177,573	$ 180,870	$ 184,996
Europe	75,751	93,099	109,058
Canada	18,393	18,733	17,895
Other	42,662	37,734	34,048
Total	$ 314,379	$ 330,436	$ 345,997

Principally all long-lived assets are located in the United States.

Note Q — Commitments

Future minimum rental commitments for non-cancellable operating leases of office space as of December 31, 2012, are as follows (in thousands):

Year	Operating Leases
2013	$ 2,401
2014	2,179
2015	1,879
2016	707
2017	707
Thereafter	236
Total	$ 8,109

The above amounts do not include taxes and property operating costs on certain leases. Rent expense amounted to approximately $2,559,000, $2,355,000 and $2,127,000 for the years ended December 31, 2012, 2011, and 2010, respectively.

30

Note Q — Commitments (continued)

On December 17, 2009, the Company agreed to pay compensation to the Company's Chairman and the Company's Chief Executive Officer for options granted by such executives to the former owners of Various and to a holder of common and preferred shares on an aggregate of 1,147,964 of the Company's common shares owned by the executives. Subject to the consummation of a public or private offering of any equity or debt securities of the Company which occurs after an IPO, each executive is to receive compensation of approximately $2.2 million, equal to 37.5% of the IPO price of $10 times 573,982 representing the number of common shares on which options were granted. In addition, the Company agreed to pay a consent fee to the two former owners of Various on the same terms and calculated in the same manner as the compensation payable to the Company's executives as described above or a total of approximately $4.4 million. Subject to the trading price of the Company's stock, as defined, being equal to or greater than 50% of the IPO price, the Company shall pay one-third of the $8.8 million on the first business day of the first full calendar quarter following the consummation of the equity or debt offering referred to above, and one-third of such amount on the first business day of each of the next two calendar quarters. In the event of a Change in Control Event, as defined, the Company shall pay any remaining unpaid amount.

Note R — Contingencies

(a) On December 23, 2005, Robert Guccione ("Guccione") filed an action against the Company and some of its officers, among other defendants, in New York State Court for breach of contract, fraud, unjust enrichment, promissory estoppel, failure to pay severance and conspiracy to defraud. The amount of damages requested in the complaint against the Company is approximately $9.0 million and against the officers is in excess of $10.0 million. Guccione filed an amended complaint on June 5, 2007 to include additional claims relating to ownership of certain United Kingdom, Jersey and Guernsey trademarks and added as a party Penthouse Publications Limited, an entity with no current affiliation with the Company, as party plaintiff. Guccione filed a second amended complaint on December 14, 2007 adding General Media International, Inc. (an entity with no current affiliation with the Company) as party plaintiff and a new claim for inducement to breach of contract. On October 20, 2010, Guccione passed away. In 2011, Guccione's estate was substituted as the plaintiff. In September, 2012 the parties executed a settlement agreement providing for both monetary and non-monetary relief,. In or about December 2012, the surrogate court approved the settlement agreement and the Company paid an immaterial amount to the Plaintiffs. A stipulation of dismissal was filed by the Plaintiffs in favor of the Company on or about December 27, 2012.

(b) On November 28, 2006, Antor Media Corporation ("Antor") filed a complaint against the Company, its subsidiary, General Media Communications, Inc. ("GMCI"), and several non-affiliated media/entertainment defendants in the U.S. District Court for the Eastern District of Texas, Texarkana Division, for infringement of a Patent titled "Method and Apparatus for Transmitting Information Recorded on Information Storage Means from a Central Server to Subscribers via a High Data Rate Digital Telecommunications Network." In 2009, the USPTO issued a Final Office Action rejecting all of the plaintiff's claims and plaintiff appealed. In 2010, the USPTO Board of Patent Appeals entered an order affirming the rejection of Antor's claims. In May 2011, Antor filed its notice of appeal of the USPTO Board of Patent Appeals Order. In July 2012, the Federal Circuit affirmed the USPTO's rejection of all claims of Antor's patent-in-suit as being invalid over the prior art references cited during reexamination. The Federal Circuit issued its mandate affirming the decision of the USPTO on or about September 17, 2012. On or about December 19, 2012, the final judgment of dismissal was entered, concluding this matter in its entirety.

(c) Effective July 1, 2008, Various registered in the European Union and on July 29, 2008, began separately charging VAT to its customers. For periods prior thereto, Various recorded a liability for VAT and related interest and penalties in connection with revenue from internet services derived from its customers in the various European Union countries. Various reduced its VAT liability for periods prior to July 1, 2008 in the countries where the liability was either paid in full or payments were made pursuant to settlement and payment plans or where determinations were made that payments were not due. Various continues to negotiate settlements of the liabilities or challenge the liability related to VAT for periods prior to July 1, 2008.

(d) On November 11, 2011, a putative shareholder class action was filed in the U.S. District Court for the Southern District of Florida by Greenfield Children's Partnership, on behalf of investors who purchased the Company’s common stock pursuant to its initial public offering, against the Company, Ladenburg Thalmann & Co., Inc. and Imperial Capital LLC, the underwriters in the initial public offering, and the Company’s directors and certain of the Company’s executive officers. The complaint alleges, among other things, that the initial public offering documents contained certain false and misleading statements and seeks an unspecified amount of compensatory damages. In March 2012, the plaintiffs filed an amended complaint alleging all of the same causes of action and adding additional factual allegations and in response to the Amended Complaint the Company filed its Motion to Dismiss. The Company believes it has meritorious defenses to all claims and is vigorously defending the lawsuit. On or about November 15, 2012, the court granted the Motion to Dismiss and gave plaintiffs fifteen days to amend portions of their Amended Complaint. On or about November 30, 2012, plaintiffs filed their Motion for Reconsideration or for Leave. The Company awaits the court’s decision on this matter.

Note R — Contingencies (continued)

(e) On December 28, 2007, Broadstream Capital Partners, Inc. (“Broadstream”) filed a lawsuit against the Company in the State Superior Court of California, County of Los Angeles, Central District, and the Company subsequently removed the case to the Federal District Court for the Central District of California. The complaint alleged breach of contract, breach of covenant of good faith and fair dealing, breach of fiduciary duty and constructive fraud arising out of a document titled “Non-Disclosure Agreement.” The complaint sought damages in excess of $20 million, plus interest, costs and punitive damages. Broadstream later asserted up to $557 million in damages plus punitive damages. On July 20, 2009, the Company entered into an agreement with Broadstream under which, without admitting liability, the Company agreed to pay Broadstream $3.0 million. Such payments were timely made. The agreement provided that upon the earlier of twelve months after the Company had securities registered under Section 12(b) of the Securities Exchange Act of 1934, as amended, or eighteen months after the effective date of the agreement, but not later than twelve months following such earlier date, Broadstream must choose either to (i) refile its complaint in Federal District Court provided that it first repay the Company the $3.0 million or (ii) demand arbitration. If Broadstream elected arbitration, the parties agreed that there would be an arbitration award to Broadstream of at least $10 million but not more than $47 million. Giving consideration to the limitation of the arbitration award in relation to damages sought in litigation, management had not concluded that it was probable that Broadstream would demand arbitration. Accordingly, no loss had been provided for as a result of entering into the agreement. In December 2010, Broadstream elected arbitration. Accordingly, at December 31, 2010, the Company recognized a loss in connection with the matter of $13.0 million which is included in other non-operating expense, net in the accompanying 2010 consolidated statement of operations. In July 2011, the Company entered into a settlement agreement with Broadstream pursuant to which the arbitration and related litigation and all claims asserted therein were dismissed and the Company paid Broadstream $15 million. As a result of the settlement, the Company recognized an additional loss of $5 million which is included in other non-operating expense, net in the accompanying 2011 consolidated statement of operations.

The Company currently is a party to other legal proceedings and claims. While management presently believes that the ultimate outcome of these matters, including the ones discussed above, individually and in the aggregate, will not have a material adverse effect on the Company’s financial position, cash flows, or overall trends in results of operations, litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or, in cases for which injunctive relief is sought, an injunction prohibiting the Company from selling one or more products or services. Were an unfavorable ruling to occur there exists the possibility of a material adverse impact on the business or results of operations for the period in which the ruling occurs or future periods. The Company is unable to estimate the possible loss or range of loss which may result from pending legal proceedings or claims.

Note S — Related Party Transactions

In October 2004, the Company entered into a separate management agreement with an entity controlled by the Company’s principal stockholders whereby certain management services are to be performed by these principal stockholders as designated by the Board of Directors of the Company. The agreement was for a term of five years with an annual fee of $500,000. In October 2009, the management agreement was amended to extend the term until the consummation of an IPO and the annual fee was increased to $1,000,000 effective November 1, 2010. The term of the amended and restated agreement concluded upon the consummation of the IPO of the Company’s common stock in May 2011. Management fees, which are included in general and administrative expenses, amounted to approximately $369,000 and $583,000 for the years ended December 31, 2011 and 2010 respectively.

The Company has also entered into a lease agreement for rental of office space from a company controlled by the Company’s principal stockholders. The lease, which commenced on January 1, 2005, was for a period of five years and provided for annual rent of approximately $58,000 plus operating expenses. On December 18, 2009, the lease was extended through June 2010 at approximately $5,000 per month. On December 1, 2010, a new lease agreement was entered for a period of five years providing for annual rent of approximately $61,000 with the annual base rent and expenses not to exceed $150,000 per year. Total rent expense under the lease agreements was approximately $150,000, $150,000 and $161,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

In September 2007, the Company entered into consulting agreements with two entities controlled by two of the Company's stockholders who were former owners of Various. The agreements specify payments of approximately $19,000 per month to each entity. Both agreements were for one year and thereafter renewed automatically each month until either party terminated the agreement. As of October 27, 2010, the agreements were amended so that the Company could not terminate the agreements prior to March 31, 2013. For each of the years ended December 31, 2012, 2011 and 2010, the Company paid an aggregate of approximately $442,000, $462,000 and $462,000 under such agreements which is included in general and administrative expenses.

Note S — Related Party Transactions (continued)

Effective October 5, 2012, the Company and each of Marc H. Bell and Daniel C. Staton determined to change Messrs. Bell's and Staton's status from executive Co-Chairman of the Board of Directors and Chief Strategy Officer in Mr. Bell's case and Executive Co-Chairman of the Board in Mr. Staton's case to non-executive Co-Chairmen of the Board. In connection with this change in status, the Company and each of Messrs. Bell and Staton have agreed to terminate the Amended and Restated Employment Agreements, dated as of April 24, 2012, by and between the Company and Mr. Bell and the Company and Mr. Staton (collectively, the "Employment Agreements"). No termination payments are being made pursuant to the Employment Agreements.

The Company and each of Messrs. Bell and Staton entered into Consulting Agreements, dated as of October 5, 2012 (collectively, the "Consulting Agreements"). The Consulting Agreements provide for a term that runs through March 29, 2017 and sets forth that Messrs. Bell and Staton will provide consulting services in connection with enterprise-wide business initiatives, strategic planning and issues relating to the Company's debt, including any refinancing of the Company's debt. Each of Messrs. Bell and Staton will receive an annual consulting fee of $500,000 per year which may be increased each fiscal year by 10% following the first anniversary of the Consulting Agreements if permitted under the terms of the agreements governing the Company's indebtedness and obligations in effect from time to time, and they are eligible to receive an additional consulting fee under certain conditions. Under the Consulting Agreements they will also receive grants of equity, restricted stock and stock options, subject to certain conditions. Additionally, the Consulting Agreements provide that if Messrs. Bell or Staton are terminated by the Company without cause or if Messrs. Bell or Staton terminate the Consulting Agreement for good reasons or within 12 months following a change of control all as defined, Messrs. Bell and Staton are entitled to termination payments. For the year ended December 31, 2012, the Company paid an aggregate of $264,000 under the Consulting Agreement.

See Note Q.

Note T — Employee Benefit Plans

FriendFinder had a defined contribution plan that combines an employee deferred compensation 401(k) plan with a profit-sharing plan under which FriendFinder may make contributions solely at its own discretion. FriendFinder did not make any contributions to the plan for the years ended December 31, 2012, 2011 and 2010. In January 2012, the FriendFinder plan was merged into the Various plan referenced below.

Various has a defined contribution plan under Section 401(k) of the Internal Revenue Code covering all full-time employees which provides for matching contributions by Various, as defined in the plan. Contributions made by Various to the plan for the years ended December 31, 2012, 2011 and 2010 were approximately $860,000, $793,000 and $597,000 respectively.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements: The Consolidated Financial Statements of FriendFinder are set forth in Part II, Item 8 of this Form 10-K.

2. Financial Statement Schedules:

FRIENDFINDER NETWORKS INC.
YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010
VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Period
Year Ended December 31, 2010:					
Allowance for doubtful accounts	$ 2,152	$ 839	$ —	$ 755(a)	$ 2,236
Deferred tax asset valuation allowance	11,948	16,679	—	—	28,627
Year Ended December 31, 2011:					
Allowance for doubtful accounts	2,236	176	—	1,257(a)	1,155
Deferred tax asset valuation allowance	28,627	12,697	353(c)	5,660(b)	36,017
Year Ended December 31, 2012:					
Allowance for doubtful accounts	1,155	660	—	531(a)	1,284
Deferred tax asset valuation allowance	36,017	13,195	—	706(d)	48,506

Notes:

(a) Accounts receivable amounts considered uncollectible and removed from accounts receivable by reducing the allowance for doubtful accounts.

(b) Reduction of the valuation allowance and corresponding credit to income tax benefit from recognition of deferred tax liability charged to additional paid in capital related to benefical conversion feature on notes.

(c) Valuation allowance recorded at date of acquisition of JigoCity related to its net deferred tax assets at such date.

(d) Reduction in the valuation allowance resulting from the disposition of JigoCity

3. Exhibits:

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of September 7, 2011, by and among FriendFinder Networks Inc., JGC Holdings Limited, BDM Global Ventures Limited, Global Investment Ventures LLC and Anthony R. Bobulinski(1)
3.1	Amended and Restated Articles of Incorporation of FriendFinder Networks Inc., which became effective on January 25, 2010(2)
3.2	Amended and Restated Bylaws of FriendFinder Networks Inc.(5)
4.1	Specimen of Common Stock Certificate(3)
4.13	Registration Rights Agreement dated December 6, 2007 (Warrants)(3)
4.14	Amendment to Registration Rights Agreement (Warrants) dated October 8, 2009(3)
4.20	Intercreditor and Subordination Agreement, dated as of October 27, 2010, by and among INI and the Company as Co-Issuers, the Guarantors party thereto, and U.S. Bank, N.A. as Trustee.(3)
4.21	Second Lien Intercreditor Agreement, dated as of October 27, 2010, by and among INI and the Company as Co-Issuers, the Guarantors party thereto, and U.S. Bank, N.A. as Trustee.(3)
4.35	Form of 14% Senior Secured Note, Series A, Due 2013 (filed with Exhibit 4.66)
4.36	Form of 14% Senior Secured Note, Series B, Due 2013 (filed with Exhibit 4.66)
4.37	Form of Cash Pay Secured Note, Series A, Due 2013 (filed with Exhibit 4.68)
4.38	Form of Cash Pay Secured Note, Series B, Due 2013 (filed with Exhibit 4.68)

Exhibit Number	Description
4.39	Agreement re: Limitation on Ability to Acquire Common Stock by and between FriendFinder Networks Inc. and Beach Point Capital Management LP dated October 8, 2009(3)
4.40	Form of Amendment to Warrants executed in connection with Agreement re: Limitation on Ability to Acquire Common Stock(3)
4.65	Binding Term Sheet by and among FriendFinder Networks Inc., Interactive Network, Inc., Andrew B. Conru Trust Agreement, Mapstead Trust, created on April 16, 2002, Andrew B Conru, Lars Mapstead, Daniel Staton and Marc H. Bell, dated October 8, 2009(3)
4.66	Indenture, dated as of October 27, 2010, by and among INI and the Company as Co-Issuers, the Guarantors party thereto, and U.S. Bank, N.A. as Trustee relating to the 14% Senior Secured Notes due 2013(3)
4.67	Indenture, dated as of October 27, 2010, by and among INI and the Company as Co-Issuers, the Guarantors party thereto, and U.S. Bank, N.A. as Trustee relating to the 11.5% Convertible Non-Cash Pay Secured Notes due 2014(3)
4.68	Indenture, dated as of October 27, 2010, by and among INI and the Company as Co-Issuers, the Guarantors party thereto, and U.S. Bank, N.A. as Trustee relating to the 14% Cash Pay Secured Notes due 2013(3)
4.69	Security and Pledge Agreement(3)
4.70	Second Lien Cash Pay Security and Pledge Agreement(3)
4.71	Form of Non-Cash Pay Secured Note, Series A, Due 2014 (filed with Exhibit 4.67)
4.72	Form of Non-Cash Pay Secured Note, Series B, Due 2014 (filed with Exhibit 4.67)
4.73	Supplemental Indenture, dated as of March 27, 2012, by and among INI and the Company as Co-Issuers, the Guarantors party thereto, and U.S. Bank, N.A. as Trustee relating to the 14% Senior Secured Notes due 2013(5)
4.74	Supplemental Indenture, dated as of March 27, 2012, by and among INI and the Company as Co-Issuers, the Guarantors party thereto, and U.S. Bank, N.A. as Trustee relating to the 14% Cash Pay Secured Notes due 2013(5)
4.75	Waiver Agreement, dated May 11, 2012, by and among INI and the Company as Co-Issuers, the Guarantors party thereto, and U.S. Bank, National Association as Trustee relating to the 11.5% Convertible Non-Cash Pay Notes due 2014(6).
4.76	Waiver Agreement, dated August 1, 2012, by and among INI and the Company as Co-Issuers, the Guarantors party thereto, and U.S. Bank, National Association as Trustee relating to the 11.5% Convertible Non-Cash Pay Notes due 2014(7).
10.1	Form of Indemnification Agreement between FriendFinder Networks Inc. and its Directors and Officers(3)
10.2	Amended and Restated Management Agreement, dated as of November 1, 2010, by and between the Company and Bell & Staton, Inc.(3)
10.3	Form of Employment Agreement by and between FriendFinder Networks Inc. and Daniel C. Staton, effective upon closing of the Initial Public Offering(3)
10.4	Form of Employment Agreement by and between FriendFinder Networks Inc. and Marc H. Bell, effective upon closing of the Initial Public Offering(3)
10.14	Independent Contractor Agreement dated September 21, 2007, by and between Hinok Media Inc. and Various, Inc.(3)
10.15	Amendment to Independent Contractor Agreement dated May 12, 2008, by and between Hinok Media Inc. and Various, Inc.(3)
10.16	Amendment No. 2 to Independent Contractor Agreement, Assignment and Limited Waiver dated October 8, 2009, by and between Hinok Media Inc., YouMu, Inc. and Various Inc.(3)
10.17	

	Amendment to Letter Agreement Dated October 8, 2009 by and among the Company, Andrew B. Conru Trust Agreement, Mapstead Trust and Messrs. Conru, Mapstead, Bell and Staton(3)
10.18	Letter Agreement relating to confirmation of certain consent and exchange fees, by and between the Company and Andrew B. Conru Trust Agreement dated October 27, 2010(3)
10.19	Letter Agreement relating to confirmation of certain consent and exchange fees, by and between the Company and Mapstead Trust dated October 27, 2010(3)
10.21	Employee Proprietary Information Agreement dated September 21, 2007, by and between Andrew B. Conru and Various, Inc.(3)
10.22	Independent Contractor Agreement dated September 21, 2007, by and between Legendary Technology Inc. and Various, Inc.(3)
10.23	Amendment No. 1 to Independent Contractor Agreement dated October 8, 2009, by and between Legendary Technology Inc. and Various, Inc.(3)
10.24	Employee Proprietary Information Agreement dated September 21, 2007, by and between Lars Mapstead and Various, Inc.(3)
10.28	Second Amended and Restated Employment Offer Letter, Dated April 1, 2010, by and between the Company and Ezra Shashoua (3)
10.29	Form of Employment Agreement, dated as of March 14, 2011, by and between FriendFinder Networks Inc. and Anthony Previte(3)
10.30	Employment Agreement, effective as of January 1, 2011, by and between the Company and Robert Brackett(3)

35

Exhibit Number	Description
10.33	Employee Proprietary Information Agreement dated November 9, 2007, by and between Various, Inc. and Robert Brackett(3)
10.35	Fourth Amendment to Lease, Dated November 1, 2010, by and between 6800 Broken Sound LLC and FriendFinder Networks Inc.(3)
10.36	Lease dated May 6, 2008 by and between 20 Broad Company LLC and Penthouse Media Group Inc.(3)
10.37	Lease dated April 24, 2009 by and between NBP Partners I, LLC and Streamray Studios, Inc.(3)
10.43	Lease dated May 9, 2008, between Batton Associates, LLC, Lessor and Various, Inc., Lessee(3)
10.44	Commercial Lease Agreement dated December 14, 2009 by and between Escondido Partners II, LLC and Steamray Inc.(3)
10.45	Amended and Restated FriendFinder Networks Inc. 2008 Stock Option Plan(3)
10.46	Form of FriendFinder Networks Inc. Stock Option Agreement for Employees(3)
10.47	Form of FriendFinder Networks Inc. Stock Option Agreement Non-ISO(3)
10.48	Form of FriendFinder Networks Inc. Stock Option Agreement for Directors(3)
10.49	Form of FriendFinder Networks Inc. Stock Option Agreement for Consultants(3)
10.50	Form of FriendFinder Networks Inc. Stock Option Agreement for Board Consultants(3)
10.51	FriendFinder Networks Inc. 2009 Restricted Stock Plan(3)
10.52	Form of FriendFinder Networks Inc. 2009 Restricted Stock Plan Restricted Stock Grant Agreement(3)
10.53	Agreement, dated as of December 17, 2009, by and between Daniel C. Staton and FriendFinder Networks Inc.(3)
10.54	Agreement, dated as of December 17, 2009, by and between Marc H. Bell and FriendFinder Networks Inc.(3)
10.55	Agreement, dated as of December 17, 2009, by and between Andrew B. Conru Trust Agreement and FriendFinder Networks Inc.(3)
10.56	Agreement, dated as of December 17, 2009, by and between Mapstead Trust, created on April 16, 2002 and FriendFinder Networks Inc.(3)
10.57	Equity Put Agreement, dated as of September 7, 2011, by and among FriendFinder Networks Inc., the Shareholders and Anthony R. Bobulinski, in his capacity as the Shareholders' representative.(1)
10.58	Registration Rights Agreement, dated as of September 7, 2011, by and among FriendFinder Networks Inc., Global Investment Ventures LLC and Anthony R. Bobulinski(1)
10.59	Employment Agreement, dated as of November 18, 2011, between FriendFinder Networks Inc., Various, Inc. and Ezra Shashoua.(4)
10.60	FriendFinder Networks Inc. 2012 Stock Incentive Plan. (8)
10.61	Employment Agreement, dated as of April 24, 2012, between FriendFinder Networks Inc. and Marc H. Bell. (9)
10.62	Employment Agreement, dated as of April 24, 2012, between FriendFinder Networks Inc. and Daniel C. Staton. (9)
10.63	Employment Agreement, dated as of April 24, 2012, between FriendFinder Networks Inc., Various, Inc. and Anthony Previte. (9)
10.64	Amended and Restated Employment Agreement, dated as of May 15, 2012, between FriendFinder Networks Inc., Various, Inc. and Ezra Shashoua. (10)
10.65	Consulting Agreement, dated as of October 5, 2012, between FriendFinder Networks Inc. and Marc H. Bell. (11)
10.66	

	Consulting Agreement, dated as of October 5, 2012, between FriendFinder Networks Inc. and Daniel C. Staton. (11)
10.67	Agreement in Connection With Continuation of Certain Equity Awards, dated as of October 5, 2012, between FriendFinder Networks Inc. and Marc H. Bell. (11)
10.68	Agreement in Connection With Continuation of Certain Equity Awards, dated as of October 5, 2012, between FriendFinder Networks Inc. and Daniel C. Staton. (11)
10.69	Form of Forbearance Agreement, dated November 5, 2012, entered into between FriendFinder Networks Inc. and Interactive Network, Inc., as Co-Issuers, the Guarantors party thereto, and certain holders of the 14% Senior Secured Notes due 2013. (12)
10.70	Form of Forbearance Agreement, dated November 5, 2012, entered into between FriendFinder Networks Inc. and Interactive Network, Inc., as Co-Issuers, the Guarantors party thereto, and the holders of the Cash Pay Secured Notes due 2013. (12)
10.71	Form of First Amendment to Forbearance Agreement, dated February 4, 2013, entered into between FriendFinder Networks Inc. and Interactive Network, Inc., as Co-Issuers, the Guarantors party thereto and certain holders of the 14% Senior Secured Notes due 2013. (13)
10.72	Form of First Amendment to Forbearance Agreement, dated February 4, 2013, entered into between FriendFinder Networks Inc. and Interactive Network, Inc., as Co-Issuers, the Guarantors party thereto, and the holders of the Cash Pay Secured Notes due 2013. (13)
10.73	First Amendment to Employment Offer Letter Agreement, dated March 29, 2013, among Friendfinder Networks Inc., Various, Inc. and Robert Brackett *
21.1	List of Subsidiaries *
23.1	Consent of EisnerAmper LLP **

Exhibit Number	Description
31.1	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
31.2	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
32.1	Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.***
32.2	Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.***
101.INS	XBRL Instance Document#****
101.SCH	XBRL Taxonomy Extension Schema Document#****
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document#****
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document#****
101.LAB	XBRL Taxonomy Extension Label Linkbase Document#****
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Dcocument#****

Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

* Previously filed with the Form 10-K for the year ended December 31, 2012 filed with the SEC on April 1, 2013.

** Filed herewith.

*** Furnished herewith.

**** Previously furnished with the Form 10-K for the year ended December 31, 2012 filed with the SEC on April 1, 2013.

(1) Incorporated by reference to Exhibits 2.1, 10.1 and 10.2 filed with the Form 8-K on September 12, 2011.
(2) Incorporated by reference to Exhibit 3.4 filed with the Form S-1(File No. 333-156414) or any of the amendments filed thereto.
(3) Incorporated by reference to the exhibit with the corresponding number filed with the Form S-1 (File No. 333-156414) or any of the amendments filed thereto.
(4) Incorporated by reference to Exhibit 10.1 filed with the Form 8-K on November 22, 2011.
(5) Incorporated by reference to the exhibit with the corresponding number filed with the Form 10-K for the year ended December 31, 2012.
(6) Incorporated by reference to the exhibit with the corresponding number filed with the Form 10-Q for the quarterly period ended March 31, 2012.
(7) Incorporated by reference to the exhibit with the corresponding number filed with the Form 10-Q for the quarterly period ended June 30, 2012.
(8) Incorporated by reference to the Exhibit 10.1filed with the Form S-8 on August 31, 2012 .
(9) Incorporated by reference to Exhibits 10.1, 10.2 and 10.3 filed with the Form 8-K on April 26, 2012.
(10) Incorporated by reference to Exhibit 10.1 filed with the Form 8-K on May 18, 2012.
(11) Incorporated by reference to Exhibits 10.1, 10.2, 10.3 and 10.4 filed with Form 8-K on October 5, 2012.
(12) Incorporated by reference to Exhibits 10.1and 10.2 filed with the Form 8-K on November 8, 2012.
(13) Incorporated by reference to Exhibits 10.1 and 10.2 filed with the Form 8-K on February 8, 2013.

37

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 7, 2013

FRIENDFINDER NETWORKS INC.

/s/ Anthony Previte
Anthony Previte
Chief Executive Officer, President and Director
(Duly Authorized Officer)