

LendingTree, Inc.  
Form 10-Q  
October 28, 2016  
Table of Contents

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2016

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 No. 001-34063

LendingTree, Inc.

(Exact name of Registrant as specified in its charter)

Delaware 26-2414818

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

11115 Rushmore Drive, Charlotte, North Carolina 28277

(Address of principal executive offices)

(704) 541-5351

(Registrant's telephone number, including area code)

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  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  No

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.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Edgar Filing: LendingTree, Inc. - Form 10-Q

As of October 24, 2016, there were 11,789,606 shares of the Registrant's common stock, par value \$.01 per share, outstanding, excluding treasury shares.

---

TABLE OF CONTENTS

	Page Number
<u>PART I—FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
<u>Item 4. Controls and Procedures</u>	<u>29</u>
<u>PART II—OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>30</u>
<u>Item 1A. Risk Factors</u>	<u>30</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>30</u>
<u>Item 5. Other Information</u>	<u>31</u>
<u>Item 6. Exhibits</u>	<u>31</u>

Table of Contents

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

## LENDINGTREE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
Revenue	\$94,558	\$69,804	\$283,561	\$175,875
Costs and expenses:				
Cost of revenue (exclusive of depreciation shown separately below)	3,392	2,436	10,329	6,402
Selling and marketing expense	62,819	48,901	192,416	118,615
General and administrative expense	9,008	7,069	26,820	21,336
Product development	3,718	2,675	11,384	7,238
Depreciation	1,286	764	3,458	2,135
Amortization of intangibles	166	25	263	124
Restructuring and severance	—	28	72	422
Litigation settlements and contingencies	19	133	109	(663 )
Total costs and expenses	80,408	62,031	244,851	155,609
Operating income	14,150	7,773	38,710	20,266
Other income (expense), net:				
Interest expense	(141 )	(1 )	(424 )	(63 )
Income before income taxes	14,009	7,772	38,286	20,203
Income tax expense	(6,729 )	(389 )	(15,099 )	(968 )
Net income from continuing operations	7,280	7,383	23,187	19,235
Loss from discontinued operations, net of tax	(664 )	(1,295 )	(3,017 )	(3,238 )
Net income and comprehensive income	\$6,616	\$6,088	\$20,170	\$15,997
Weighted average shares outstanding:				
Basic	11,754	11,445	11,827	11,378
Diluted	12,742	12,489	12,782	12,379
Income per share from continuing operations:				
Basic	\$0.62	\$0.65	\$1.96	\$1.69
Diluted	\$0.57	\$0.59	\$1.81	\$1.55
Loss per share from discontinued operations:				
Basic	\$(0.06 )	\$(0.11 )	\$(0.26 )	\$(0.28 )
Diluted	\$(0.05 )	\$(0.10 )	\$(0.24 )	\$(0.26 )
Net income per share:				
Basic	\$0.56	\$0.53	\$1.71	\$1.41
Diluted	\$0.52	\$0.49	\$1.58	\$1.29

The accompanying notes to consolidated financial statements are an integral part of these statements.



Table of Contents

LENDINGTREE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	September 30, 2016	December 31, 2015
	(in thousands, except par value and share amounts)	
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 176,925	\$ 206,975
Restricted cash and cash equivalents	4,091	6,541
Accounts receivable (net of allowance of \$1,026 and \$606, respectively)	38,185	29,873
Prepaid and other current assets	3,925	2,085
Current assets of discontinued operations	—	110
Total current assets	223,126	245,584
Property and equipment, net	13,399	9,415
Goodwill	4,007	3,632
Intangible assets, net	15,229	10,992
Deferred income tax assets	16,341	20,977
Other non-current assets	855	1,039
Non-current assets of discontinued operations	4,142	4,142
Total assets	\$277,099	\$ 295,781
<b>LIABILITIES:</b>		
Accounts payable, trade	\$2,815	\$ 5,741
Accrued expenses and other current liabilities	37,719	34,885
Current liabilities of discontinued operations (Note 14)	11,978	13,401
Total current liabilities	52,512	54,027
Other non-current liabilities	1,753	586
Non-current liabilities of discontinued operations	27	26
Total liabilities	54,292	54,639
Commitments and contingencies (Note 12)		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock \$.01 par value; 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock \$.01 par value; 50,000,000 shares authorized; 13,953,351 and 13,865,620 shares issued, respectively, and 11,789,606 and 12,392,093 shares outstanding, respectively	140	139
Additional paid-in capital	1,016,706	1,006,688
Accumulated deficit	(729,954)	(750,124)
Treasury stock 2,163,745 and 1,473,527 shares, respectively	(64,085)	(15,561)
Total shareholders' equity	222,807	241,142
Total liabilities and shareholders' equity	\$277,099	\$ 295,781

The accompanying notes to consolidated financial statements are an integral part of these statements.

Table of Contents

LENDINGTREE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(Unaudited)

	Total	Common Stock			Accumulated Deficit	Treasury Stock	
		Number of Shares	Amount	Additional Paid-in Capital		Number of Shares	Amount
	(in thousands)						
Balance as of December 31, 2015	\$241,142	13,866	\$ 139	\$ 1,006,688	\$ (750,124 )	1,474	\$(15,561)
Net income and comprehensive income	20,170	—	—	—	20,170	—	—
Non-cash compensation	7,410	—	—	7,410	—	—	—
Purchase of treasury stock	(48,524 )	—	—	—	—	690	(48,524 )
Issuance of common stock for stock options, restricted stock awards and restricted stock units, net of withholding taxes	(3,092 )	87	1	(3,093 )	—	—	—
Tax benefit from stock-based award activity	5,701	—	—	5,701	—	—	—
Balance as of September 30, 2016	\$222,807	13,953	\$ 140	\$ 1,016,706	\$ (729,954 )	2,164	\$(64,085)

The accompanying notes to consolidated financial statements are an integral part of these statements.

Table of Contents

LENDINGTREE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30, 2016      2015 (in thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net income and comprehensive income	\$20,170	\$15,997
Less: Loss from discontinued operations, net of tax	3,017	3,238
Income from continuing operations	23,187	19,235
Adjustments to reconcile income from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Loss on disposal of fixed assets	388	102
Amortization of intangibles	263	124
Depreciation	3,458	2,135
Non-cash compensation expense	7,410	6,371
Deferred income taxes	333	—
Excess tax benefit from stock-based award activity	(5,701)	(485)
Bad debt expense	378	236
Amortization of debt issuance costs	183	—
Changes in current assets and liabilities:		
Accounts receivable	(8,565)	(11,805)
Prepaid and other current assets	(2,051)	(756)
Accounts payable, accrued expenses and other current liabilities	(5)	15,272
Income taxes payable	13,261	460
Other, net	645	207
Net cash provided by operating activities attributable to continuing operations	33,184	31,096
Cash flows from investing activities attributable to continuing operations:		
Capital expenditures	(8,017)	(4,265)
Acquisition of a business	(4,500)	(37)
Decrease in restricted cash	2,450	95
Net cash used in investing activities attributable to continuing operations	(10,067)	(4,207)
Cash flows from financing activities attributable to continuing operations:		
Payments related to net-share settlement of stock-based compensation, net of proceeds from exercise of stock options	(3,093)	(6,127)
Payment of equity offering costs	(23)	—
Payment of debt issuance costs	(8)	—
Excess tax benefit from stock-based award activity	5,701	485
Purchase of treasury stock	(48,524)	(218)
Dividends	—	(105)
Net cash used in financing activities attributable to continuing operations	(45,947)	(5,965)
Total cash (used in) provided by continuing operations	(22,830)	20,924
Net cash used in operating activities attributable to discontinued operations	(7,220)	(885)
Total cash used in discontinued operations	(7,220)	(885)
Net (decrease) increase in cash and cash equivalents	(30,050)	20,039
Cash and cash equivalents at beginning of period	206,975	86,212
Cash and cash equivalents at end of period	\$176,925	\$106,251



The accompanying notes to consolidated financial statements are an integral part of these statements.

6

---

Table of Contents

LENDINGTREE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1—ORGANIZATION

Company Overview

LendingTree, Inc. ("LendingTree" or the "Company"), is the parent of LendingTree, LLC and several companies owned by LendingTree, LLC.

LendingTree operates what it believes to be the leading online marketplace for consumers seeking a broad array of loan types and other credit-based offerings. The Company offers consumers tools and resources, including free credit scores, that help them to comparison-shop for mortgage loans, home equity, reverse mortgage, auto loans, credit cards, personal loans, student loans and small business loans and other related offerings. The Company primarily seeks to match in-market consumers with multiple lenders on its marketplace who can provide them with competing quotes for the loans or credit-based offerings they are seeking. The Company also serves as a valued partner to lenders seeking an efficient, scalable and flexible source of customer acquisition with directly measurable benefits, by matching the consumer loan inquiries it generates with these lenders.

The consolidated financial statements include the accounts of LendingTree and all its wholly-owned entities. Intercompany transactions and accounts have been eliminated.

Discontinued Operations

The LendingTree Loans business is presented as discontinued operations in the accompanying consolidated balance sheets, consolidated statements of operations and comprehensive income and consolidated cash flows for all periods presented. The notes accompanying these consolidated financial statements reflect the Company's continuing operations and, unless otherwise noted, exclude information related to the discontinued operations. See Note 14 —Discontinued Operations for additional information.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements as of September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015, respectively, have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). In the opinion of management, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited financial statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company's financial position for the periods presented. The results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016, or any other period. The accompanying consolidated balance sheet as of December 31, 2015 was derived from audited financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2015 (the "2015 Annual Report"). The accompanying consolidated financial statements do not include all of the information and footnotes required by GAAP for annual financial statements. Accordingly, they should be read in conjunction with the audited financial statements and notes thereto included in the 2015 Annual Report.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

Management is required to make certain estimates and assumptions during the preparation of the consolidated financial statements in accordance with GAAP. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates.

Significant estimates underlying the accompanying consolidated financial statements, including discontinued operations, include: loan loss obligations; the recoverability of long-lived assets, goodwill and intangible assets; the determination of income taxes payable and deferred income taxes, including related valuation allowances; various other allowances, reserves and accruals; and assumptions related to the determination of stock-based compensation.

7

---

Table of Contents

LENDINGTREE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain Risks and Concentrations

LendingTree's business is subject to certain risks and concentrations including dependence on third-party technology providers, exposure to risks associated with online commerce security and credit card fraud.

Financial instruments, which potentially subject the Company to concentration of credit risk at September 30, 2016, consist primarily of cash and cash equivalents and accounts receivable, as disclosed in the consolidated balance sheet. Cash and cash equivalents are in excess of Federal Deposit Insurance Corporation insurance limits, but are maintained with quality financial institutions of high credit. The Company generally requires certain network lenders to maintain security deposits with the Company, which in the event of non-payment, would be applied against any accounts receivable outstanding.

Due to the nature of the mortgage lending industry, interest rate fluctuations may negatively impact future revenue from the Company's lender marketplace.

Lenders participating on the Company's marketplace can offer their products directly to consumers through brokers, mass marketing campaigns or through other traditional methods of credit distribution. These lenders can also offer their products online, either directly to prospective borrowers, through one or more online competitors, or both. If a significant number of potential consumers are able to obtain loans from participating lenders without utilizing the Company's services, its ability to generate revenue may be limited. Because the Company does not have exclusive relationships with the lenders whose loan offerings are offered on its online marketplace, consumers may obtain offers and loans from these lenders without using its service.

The Company maintains operations solely in the United States.

Litigation Settlements and Contingencies

Litigation settlements and contingencies consists of expenses related to actual or anticipated litigation settlements, in addition to legal fees incurred in connection with various patent litigation claims the Company pursues against others.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15 which addresses eight cash flow classification issues, eliminating the diversity in practice. This ASU is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted. The retrospective transition method, requiring adjustment to all comparative periods presented, is required unless it is impracticable for some of the amendments, in which case those amendments would be prospectively applied as of the earliest date practicable. The Company is evaluating the impact this ASU will have on its consolidated financial statements and whether to early adopt.

In March 2016, the FASB issued ASU 2016-09 which simplifies various aspects related to how share-based payments are accounted for and presented in the financial statements, including the income tax consequences, classification of awards as either equity or liabilities, forfeitures and classification of excess tax benefits on the statement of cash flows. This ASU is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption permitted. Upon adoption, any adjustments are to be reflected as of the beginning of the fiscal year of adoption. The Company is evaluating the impact this ASU will have on its consolidated financial statements and whether to early adopt.

In February 2016, the FASB issued ASU 2016-02 related to leases. This ASU requires the recognition of a right-of-use lease asset and a lease liability by lessees for all leases greater than one year in duration. This ASU is effective for annual and interim reporting periods beginning after December 15, 2018, with early adoption permitted. The guidance must be adopted using a modified retrospective transition. The Company is evaluating the impact this ASU will have on its consolidated financial statements and whether to early adopt.

In May 2014, the FASB issued ASU 2014-09 related to revenue recognition. This ASU was initiated as a joint project between the FASB and the International Accounting Standards Board ("IASB") to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and international financial reporting

standards ("IFRS"). This guidance will supersede the existing revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition and was set to be effective for annual reporting periods beginning after December 15, 2016. However, in July 2015, the FASB deferred the effective date by one year, such that the standard will be effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date of December 15, 2016. The ASU can be applied (i) retrospectively to each prior period presented or (ii) retrospectively with the cumulative effect of initially adopting the ASU recognized at the date of initial application. In March 2016, the FASB issued ASU 2016-08, which clarifies the principal

Table of Contents

## LENDINGTREE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

versus agent guidance under ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, which clarifies the identification of distinct performance obligations in a contract. In May 2016, the FASB issued ASU 2016-12, which clarifies the guidance on assessing collectibility, presenting sales taxes, measuring noncash consideration and certain other transition matters. The clarification ASU's must be adopted concurrently with the adoption of ASU 2014-09. The Company is evaluating the impact these ASU's will have on its consolidated financial statements, whether to early adopt and which implementation method to apply.

## NOTE 3—RESTRICTED CASH

Restricted cash and cash equivalents consists of the following (in thousands):

	September 30, December 31,	
	2016	2015
Cash in escrow for surety bonds <sup>(a)</sup>	\$ —	\$ 2,453
Cash in escrow from sale of LendingTree Loans <sup>(b)</sup>	4,032	4,028
Other	59	60
Total restricted cash and cash equivalents	\$ 4,091	\$ 6,541

State laws and regulations generally require businesses which engage in mortgage brokering activity to maintain a mortgage broker or similar license. Mortgage brokering activity is generally defined to include, among other things, receiving valuable consideration for offering assistance to a buyer in obtaining a residential mortgage or (a)soliciting financial and mortgage information from the public and providing that information to an originator of residential mortgage loans. All states require that the Company maintain surety bonds for potential claims. In February 2016, \$2.5 million in escrow for the surety bonds was released due to a reduction in collateral requirements.

Home Loan Center, Inc. ("HLC"), a subsidiary of the Company, continues to be liable for certain indemnification (b)obligations, repurchase obligations and premium repayment obligations following the sale of substantially all of the operating assets of its LendingTree Loans business in the second quarter of 2012.

## NOTE 4—BUSINESS ACQUISITION

On May 31, 2016, the Company acquired certain assets of SimpleTuition, Inc. ("SimpleTuition"), a leading online marketing platform for student loans, for \$5.0 million of cash consideration. Of the purchase price, \$4.5 million was funded with available cash on hand and \$0.5 million was held-back in satisfaction of any potential claims. The acquisition has been accounted for as a business combination. During the quarter ended September 30, 2016, the Company completed its determination of the final allocation of the purchase price with respect to the acquired assets. The Company has recorded the \$5.0 million paid to the tangible and identifiable intangible assets based on their fair value, with the residual recorded to goodwill in the Company's one reportable segment. No liabilities were assumed. Acquisition-related costs were \$0.1 million for the nine months ended September 30, 2016 and are included in general and administrative expense on the consolidated statements of operations and comprehensive income. The allocation of the purchase price to the assets acquired is as follows (in thousands):

	Fair Value	Weighted Average Amortization Life (in years)
Accounts receivable	\$ 125	N/A
Total intangible assets with definite lives, net	\$ 4,500	9.2 years
Goodwill	\$ 375	N/A

The Company treated the purchase as an asset acquisition for income tax purposes and is deducting the recognized goodwill for income tax purposes.

The acquisition of SimpleTuition was not considered significant to the accompanying consolidated financial statements. Accordingly, the revenue and earnings of SimpleTuition for the current reporting period is not presented on a stand-alone basis herein.

Table of Contents

## LENDINGTREE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5—PROPERTY AND EQUIPMENT

The balance of property and equipment, net is as follows (in thousands):

	September 30, December 31,	
	2016	2015
Computer equipment and capitalized software	\$ 13,893	\$ 10,192
Leasehold improvements	3,052	2,096
Furniture and other equipment	848	432
Aircraft and automobile	1,988	23
Projects in progress	2,438	3,612
Total gross property and equipment	22,219	16,355
Accumulated depreciation	(8,820 )	(6,940 )
Total property and equipment, net	\$ 13,399	\$ 9,415

## NOTE 6—GOODWILL AND INTANGIBLE ASSETS

The balance of goodwill and intangible assets, net is as follows (in thousands):

	September 30, December 31,	
	2016	2015
Goodwill	\$ 487,095	\$ 486,720
Accumulated impairment losses	(483,088 )	(483,088 )
Net goodwill	\$ 4,007	\$ 3,632
Intangible assets with indefinite lives	\$ 10,142	\$ 10,142
Intangible assets with definite lives, net	5,087	850
Total intangible assets, net	\$ 15,229	\$ 10,992

## Goodwill and Indefinite-Lived Intangible Assets

The Company's goodwill is associated with its one reportable segment. Intangible assets with indefinite lives relate to the Company's trademarks.

## Intangible Assets with Definite Lives

Intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net
Technology	\$400	\$ (44 )	\$356
Customer lists	4,900	(356 )	4,544
Other	1,287	(1,100 )	187
Balance at September 30, 2016	\$6,587	\$ (1,500 )	\$5,087
	Cost	Accumulated Amortization	Net
Customer lists	\$1,000	\$ (150 )	\$850
Other	1,087	(1,087 )	—
Balance at December 31, 2015	\$2,087	\$ (1,237 )	\$850



Table of Contents

## LENDINGTREE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on balances as of September 30, 2016, future amortization is estimated to be as follows (in thousands):

	Amortization Expense
Remainder of current year	\$ 166
Year ending December 31, 2017	664
Year ending December 31, 2018	664
Year ending December 31, 2019	586
Year ending December 31, 2020	530
Thereafter	2,477
Total intangible assets with definite lives, net	\$ 5,087

## NOTE 7—ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	September 30, December 31,	
	2016	2015
Accrued litigation liabilities	\$ 736	\$ 636
Accrued advertising expense	21,153	20,841
Accrued compensation and benefits	4,189	4,464
Accrued professional fees	1,884	711
Customer deposits and escrows	4,952	4,471
Other	4,805	3,762
Total accrued expenses and other current liabilities	\$ 37,719	\$ 34,885

## NOTE 8—SHAREHOLDERS' EQUITY

Basic and diluted income per share was determined based on the following share data (in thousands):

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Weighted average basic common shares	11,754	11,445	11,827	11,378
Effect of stock options	913	891	877	841
Effect of dilutive share awards	75	153	78	160
Weighted average diluted common shares	12,742	12,489	12,782	12,379

No shares related to potentially dilutive securities were excluded from the calculation of diluted income per share for the three and nine months ended September 30, 2016 and 2015.

## Common Stock Repurchases

In each of January 2010, May 2014, January 2016 and February 2016, the board of directors authorized and the Company announced the repurchase of up to \$10.0 million, \$10.0 million, \$50.0 million and \$40.0 million, respectively, of LendingTree's common stock. During the nine months ended September 30, 2016 and 2015, the Company purchased 690,218 and 5,250 shares, respectively, of its common stock pursuant to this stock repurchase program. At September 30, 2016, approximately \$48.7 million of the previous authorizations to repurchase common stock remain available for the Company to purchase its common stock.



Table of Contents

## LENDINGTREE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 9—STOCK-BASED COMPENSATION

Non-cash compensation related to equity awards is included in the following line items in the accompanying consolidated statements of operations and comprehensive income (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Cost of revenue	\$29	\$24	\$99	\$68
Selling and marketing expense	737	425	2,118	1,080
General and administrative expense	1,072	1,178	3,511	3,909
Product development	510	351	1,682	1,176
Restructuring and severance	—	—	—	138
Total non-cash compensation	\$2,348	\$1,978	\$7,410	\$6,371

## Stock Options

A summary of changes in outstanding stock options is as follows:

	Number of Options	Weighted Average Exercise Price (per option)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value <sup>(a)</sup> (in thousands)
Options outstanding at January 1, 2016	1,918,182	\$ 18.85		
Granted <sup>(b)</sup>	73,639	75.20		
Exercised	(2,199 )	42.04		
Forfeited	(6,329 )	74.48		
Expired	—	—		
Options outstanding at September 30, 2016	1,983,293	20.74	5.37	\$ 151,223
Options exercisable at September 30, 2016	973,407	\$ 9.75	2.90	\$ 84,906

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's closing stock price of \$96.91 on the last trading day of the quarter ended September 30, 2016 and the exercise (a) price, multiplied by the number of shares covered by in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2016. The intrinsic value changes based on the market value of the Company's common stock.

During the nine months ended September 30, 2016, the Company granted stock options to certain employees and the board of directors with a weighted average grant date fair value per share of \$37.75, calculated using the (b) Black-Scholes option pricing model, which vesting periods include (a) three years from the grant date, (b) two years from the grant date, (c) 25% and 75% over a period of two years and three years, respectively and (d) five months from the grant date.

For purposes of determining stock-based compensation expense, the weighted average grant date fair value per share of the stock options was estimated using the Black-Scholes option pricing model, which requires the use of various key assumptions. The weighted average assumptions used are as follows:

Expected term <sup>(1)</sup>	5.22 - 6.38 years
Expected dividend <sup>(2)</sup>	—
Expected volatility <sup>(3)</sup>	48% - 53%

Risk-free interest rate <sup>(4)</sup> 1.10% - 1.90%

12

---

Table of Contents

## LENDINGTREE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- The expected term of stock options granted was calculated using the 'Simplified Method', which utilizes the
- (1) midpoint between the weighted average time of vesting and the end of the contractual term. This method was utilized for the stock options due to a lack of historical exercise behavior by the Company's employees.
  - (2) For all stock options granted in 2016, no dividends are expected to be paid over the contractual term of the stock options, resulting in a zero expected dividend rate.
  - (3) The expected volatility rate is based on the historical volatility of the Company's common stock.
  - (4) The risk-free interest rate is specific to the date of grant. The risk-free interest rate is based on U.S. Treasury yields for notes with comparable expected terms as the awards, in effect at the grant date.

## Restricted Stock Units and Restricted Stock

A summary of the changes in outstanding nonvested restricted stock units ("RSUs") and restricted stock is as follows:

	RSUs	
	Number of Units	Weighted Average Grant Date Fair Value (per unit)
Nonvested at January 1, 2016	237,377	\$ 43.13
Granted	68,884	73.81
Vested	(133,255)	33.17
Forfeited	(17,452)	57.12
Nonvested at September 30, 2016	155,554	\$ 63.68

	Restricted Stock	
	Number of Shares	Weighted Average Grant Date Fair Value (per share)
Nonvested at January 1, 2016	68,762	\$ 23.60
Granted	—	—
Vested	(35,297)	20.62
Forfeited	—	—
Nonvested at September 30, 2016	33,465	\$ 26.73

## Restricted Stock Units with Performance Conditions

During the nine months ended September 30, 2016, the Company granted RSUs with performance conditions to certain employees, of which vesting periods include: (a) 33.3% over a period of 0.33 years, 33.3% over a period of 1.33 years and 33.4% over a period of 2.33 years, each pending the attainment of certain performance targets set at the time of grant (b) 100% after 2.33 years from the grant date, pending the attainment of certain performance targets set at the time of grant and (c) 33.3% upon the completion of certain performance criteria, 33.3% on the first anniversary of the initial vesting and 33.4% on the second anniversary of the initial vesting.

Table of ContentsLENDINGTREE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the changes in outstanding nonvested RSUs with performance conditions is as follows:

	RSUs with Performance Conditions	Weighted Average Grant Date Fair Value (per unit)
Nonvested at January 1, 2016	—	\$ —
Granted	44,052	83.92
Vested	—	—
Forfeited	—	—
Nonvested at September 30, 2016	44,052	\$ 83.92

## NOTE 10—INCOME TAXES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except percentages)			
Income tax expense	\$(6,729)	\$(389)	\$(15,099)	\$(968)
Effective tax rate	48.0 %	5.0 %	39.4 %	4.8 %

For the three months ended September 30, 2016, the effective tax rate varied from the federal statutory rate of 35% primarily due to state taxes, including the impact of a reduction in North Carolina state income tax rates which reduced the value of its deferred tax assets.

For the nine months ended September 30, 2016, the effective tax rate varied from the federal statutory rate of 35% primarily due to the benefit derived from the federal research tax credit, partially offset by state taxes, including the impact of state tax reductions. The federal research tax credit benefit is the result of a study completed during the second quarter for the open tax years of 2011 through 2015, plus an estimate of the benefit from current research activities.

For the three and nine months ended September 30, 2015, the effective tax rate varied from the federal statutory rate of 35% primarily due to the existence of a valuation allowance that was previously provided to offset the Company's net deferred tax asset and state taxes. During the fourth quarter of 2015, the Company released the majority of the valuation allowance.

## NOTE 11—REVOLVING CREDIT FACILITY

## Senior Secured Revolving Credit Facility

On October 22, 2015, the Company's wholly-owned subsidiary, LendingTree, LLC, entered into a \$125.0 million five-year senior secured revolving credit facility which matures on October 22, 2020 (the "Revolving Credit Facility"). The proceeds of the Revolving Credit Facility can be used to finance the working capital needs, capital expenditures and general corporate purposes, including to finance permitted acquisitions. As of September 30, 2016, the Company does not have any borrowings outstanding under the Revolving Credit Facility.

Up to \$10.0 million of the Revolving Credit Facility will be available for short-term loans, referred to as swingline loans. Additionally, up to \$10.0 million of the Revolving Credit Facility will be available for the issuance of letters of credit. Under certain conditions, the Company will be permitted to add one or more term loans and/or increase revolving commitments under the Revolving Credit Facility up to an aggregate amount of \$50.0 million.

The Company's borrowings under the Revolving Credit Facility bear interest at annual rates that, at the Company's option, will be either:

• a base rate generally defined as the sum of (i) the greater of (a) the prime rate of SunTrust Bank, (b) the federal funds effective rate plus 0.5% and (c) the LIBO rate (defined below) on a daily basis applicable for an interest period of one

Table of Contents

LENDINGTREE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

month plus 1.0% and (ii) an applicable percentage of 1.0% to 2.0% based on the funded debt to consolidated EBITDA ratio; or

a LIBO rate generally defined as the sum of (i) the rate for Eurodollar deposits in the applicable currency and (ii) an applicable percentage of 2.0% to 3.0% based on the funded debt to consolidated EBITDA ratio.

All swingline loans bear interest at the base rate defined above. Interest on the Company's borrowings are payable quarterly in arrears for base rate loans and on the last day of each interest rate period (but not less often than three months) for LIBO rate loans.

The Revolving Credit Facility contains certain restrictive financial covenants, which include a funded debt to consolidated EBITDA ratio and a consolidated EBITDA to interest expense ratio. In addition, the Revolving Credit Facility contains customary affirmative and negative covenants in addition to events of default for a transaction of this type that, among other things, restrict additional indebtedness, liens, mergers or certain fundamental changes, asset dispositions, dividends, stock repurchases and other restricted payments, transactions with affiliates, sale-leaseback transactions, hedging transactions, loans and investments and other matters customarily restricted in such agreements. The Company was in compliance with all covenants at September 30, 2016.

The Revolving Credit Facility requires LendingTree, LLC to pledge as collateral, subject to certain customary exclusions, 100% of its assets, including 100% of its equity in all of its subsidiaries. The obligations under this facility are unconditionally guaranteed on a senior basis by LendingTree, Inc. and specific subsidiaries of LendingTree, LLC, which guaranties are secured by a pledge as collateral, subject to certain customary exclusions, of 100% of each of such guarantor's assets, including 100% of its equity in all of its subsidiaries.

The Company is required to pay an unused commitment fee quarterly in arrears on the difference between committed amounts and amounts actually borrowed under the Revolving Credit Facility equal to an applicable percentage of 0.25% to 0.5% per annum based on a funded debt to consolidated EBITDA ratio. The Company is required to pay a letter of credit participation fee and a letter of credit fronting fee quarterly in arrears. The letter of credit participation fee is based upon the aggregate face amount of outstanding letters of credit at an applicable percentage of 2.0% to 3.0% based on the funded debt to consolidated EBITDA ratio. The letter of credit fronting fee is .125% per annum on the face amount of each letter of credit.

The Company incurred debt issuance costs of \$1.2 million for the Revolving Credit Facility, which is included in prepaid and other current assets and other non-current assets in the Company's consolidated balance sheet and is being amortized to interest expense over the life of the Revolving Credit Facility of five years.

NOTE 12—CONTINGENCIES

Overview

LendingTree is involved in legal proceedings on an ongoing basis. In assessing the materiality of a legal proceeding, the Company evaluates, among other factors, the amount of monetary damages claimed, as well as the potential impact of non-monetary remedies sought by plaintiffs (e.g., injunctive relief) that may require it to change its business practices in a manner that could have a material and adverse impact on the business. With respect to the matters disclosed in this Note 12, unless otherwise indicated, the Company is unable to estimate the possible loss or range of losses that could potentially result from the application of such non-monetary remedies.

As of September 30, 2016 and December 31, 2015, the Company had a litigation settlement accrual of \$0.7 million and \$0.6 million, respectively, in continuing operations and \$4.0 million and \$3.6 million, respectively, in discontinued operations. The litigation settlement accrual relates to litigation matters that were either settled or a firm offer for settlement was extended, thereby establishing an accrual amount that is both probable and reasonably estimable.

Specific Matters

Intellectual Property Litigation

Zillow



Edgar Filing: LendingTree, Inc. - Form 10-Q

LendingTree v. Zillow, Inc., et al. Civil Action No. 3:10-cv-439. On September 8, 2010, the Company filed an action for patent infringement in the US District Court for the Western District of North Carolina against Zillow, Inc., NexTag, Inc., Quinstreet, Inc.,

15

---

Table of Contents

## LENDINGTREE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Quinstreet Media, Inc. and Adchemy, Inc. The complaint was amended to include Leadpoint, Inc. d/b/a Securerights on September 24, 2010. The complaint alleged that each of the defendants infringed one or both of the Company's patents-U.S. Patent No. 6,385,594, entitled "Method and Computer Network for Co-Ordinating a Loan over the Internet," and U.S. Patent No. 6,611,816, entitled "Method and Computer Network for Co-Ordinating a Loan over the Internet." The defendants in this action asserted various defenses and counterclaims against the Company, including the assertion by certain of the defendants of counterclaims alleging illegal monopolization via the Company's maintenance of the asserted patents. Defendant NexTag asserted defenses of laches and equitable estoppel. In July 2011, the Company reached a settlement agreement with Leadpoint, Inc., pursuant to which all claims against Leadpoint, Inc. and all counterclaims against the Company by Leadpoint, Inc. were dismissed. In November 2012, the Company reached a settlement agreement with Quinstreet, Inc. and Quinstreet Media, Inc. (collectively, the "Quinstreet Parties"), pursuant to which all claims against the Quinstreet Parties and all counterclaims against the Company by the Quinstreet Parties were dismissed. After an unsuccessful attempt to reach settlement through mediation with the remaining parties, this matter went to trial beginning in February 2014, and on March 12, 2014, the jury returned a verdict. The jury found that the defendants Zillow, Inc., Adchemy, Inc. and NexTag, Inc. did not infringe the two patents referenced above and determined that those patents are invalid due to an inventorship defect, and the court found that NexTag was entitled to defense of laches and equitable estoppel. The jury found in the Company's favor on the defendants' counterclaims alleging inequitable conduct and antitrust violations. Judgment was entered on March 31, 2014. After the court entered judgment, on May 27, 2014, the Company reached a settlement agreement with defendant Adchemy, Inc., including an agreement to dismiss and withdraw all claims, counterclaims, and motions between the Company and Adchemy, Inc. As a result, a joint and voluntary dismissal was filed June 12, 2014 with respect to claims between the Company and Adchemy. The parties filed various post-trial motions; in particular, defendants collectively sought up to \$9.7 million in fees and costs. On October 9, 2014, the court denied the Company's post-trial motion for judgment as a matter of law and denied Zillow's post-trial motions for sanctions and attorneys' fees. The court also denied in part and granted in part NexTag's post-trial motion for attorneys' fees, awarding NexTag a portion of its attorney's fees and costs totaling \$2.3 million, plus interest. The trial and post-trial motion process is now complete.

In November 2014, the Company filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit with respect to the jury verdict concerning Zillow, Inc. and NexTag, Inc. and the award of attorneys' fees. In March 2015, the U.S. Court of Appeals for the Federal Circuit granted the Company's motion to stay appellate briefing pending an en banc review by such court of the laches defense in an unrelated patent infringement matter and ruled in favor of Zillow, Inc. on an immaterial amount of costs related to the trial process. In June 2015, the Company reached a settlement agreement for \$1.1 million with defendant NexTag pursuant to which the Company dismissed its appeal of the jury verdict and the award of attorney's fees concerning NexTag, and NexTag dismissed its cross-appeal and claims relating to the jury verdict and the award of attorneys' fees. In July 2015, the stay was lifted on the Company's appeal with respect to the jury verdict concerning Zillow, Inc. The appeal was heard by the U.S. Court of Appeals for the Federal Circuit in June 2016, and in July 2016 the Court determined that certain of the claims of the two patents referenced above were directed to ineligible subject matter and thus such claims were invalid under 35 U.S.C. Section 101. With respect to the remaining claims that the Court did not hold were ineligible, the Court granted a remand to the federal district court to allow LendingTree to file a motion to vacate the judgment of invalidity for incorrect inventorship.

## Legal Matters

## Next Advisor, Inc.

Next Advisor, Inc. v. LendingTree, Inc. and LendingTree, LLC, No. 15-cvs-20775 (N.C. Super. Ct.). On November 6, 2015, the plaintiff filed this action against LendingTree, Inc. and LendingTree, LLC (together "LendingTree"). The plaintiff generally alleges that LendingTree breached a non-disclosure agreement and misappropriated trade secrets in

the context of a potential business acquisition of the plaintiff by LendingTree. Based upon these allegations, the plaintiff asserts claims for breach of contract, misappropriation of trade secrets and violation of North Carolina Unfair and Deceptive Trade Practices Act. The plaintiff seeks damages, attorneys' fees and injunctive relief.

On December 16, 2015, LendingTree filed its answer to the plaintiff's complaint, denying the material allegations and asserting numerous defenses thereto. In June 2016, the Court granted plaintiff's motion for preliminary injunction and ordered that LendingTree cease any utilization of confidential and trade secret information of plaintiff and cease marketing its credit card product via certain third party content marketing platforms until the judge finally determines the facts in this matter and the appropriate relief, if any, to be granted with respect thereto. Discovery is ongoing in this matter. LendingTree believes that the plaintiff's allegations lack merit and intends to vigorously defend this action. In July 2016, LendingTree filed a notice of appeal with respect to the order granting plaintiff's motion for preliminary injunction to the North Carolina Supreme Court. An estimated liability of \$0.1 million for this matter is included in the accompanying consolidated balance sheet as of September 30, 2016.

Table of Contents

LENDINGTREE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Massachusetts Division of Banks

On February 11, 2011, the Massachusetts Division of Banks (the "Division") delivered a Report of Examination/Inspection to LendingTree, LLC, which identified various alleged violations of Massachusetts and federal laws, including the alleged insufficient delivery by LendingTree, LLC of various disclosures to its customers. On October 14, 2011, the Division provided a proposed Consent Agreement and Order to settle the Division's allegations, which the Division had shared with other state mortgage lending regulators. Thirty-four of such state mortgage lending regulators (the "Joining Regulators") indicated that if LendingTree, LLC would enter into the Consent Agreement and Order, they would agree not to pursue any analogous allegations that they otherwise might assert. None of the Joining Regulators have asserted any such allegations.

The proposed Consent Agreement and Order calls for a fine to be allocated among the Division and the Joining Regulators and for LendingTree, LLC to adopt various new procedures and practices. The Company has commenced negotiations toward an acceptable Consent Agreement and Order. It does not believe its mortgage marketplace business violated any federal or state mortgage lending laws; nor does it believe that any past operations of the mortgage business have resulted in a material violation of any such laws. Should the Division or any Joining Regulator bring any actions relating to the matters alleged in the February 2011 Report of Examination/Inspection, the Company intends to defend against such actions vigorously. The range of possible loss is estimated to be between \$0.5 million and \$6.5 million, and an estimated liability of \$0.5 million has been established for this matter in the accompanying consolidated balance sheet as of September 30, 2016.

Litigation Related to Discontinued Operations

Dijkstra

Lijkel Dijkstra v. Harry Carenbauer, Home Loan Center, Inc. et al., No. 5:11-cv-152-JPB (U.S. Dist. Ct., N.D.WV).

In November 2008, the plaintiffs filed a putative class action in Circuit Court of Ohio County, West Virginia against Harry Carenbauer, HLC, HLC Escrow, Inc. et al. The complaint alleges that HLC engaged in the unauthorized practice of law in West Virginia by permitting persons who were neither admitted to the practice of law in West Virginia nor under the direct supervision of a lawyer admitted to the practice of law in West Virginia to close mortgage loans. The plaintiffs assert claims for declaratory judgment, contempt, injunctive relief, conversion, unjust enrichment, breach of fiduciary duty, intentional misrepresentation or fraud, negligent misrepresentation, violation of the West Virginia Consumer Credit and Protection Act ("CCPA"), violation of the West Virginia Lender, Broker & Services Act, civil conspiracy, outrage and negligence. The claims against all defendants other than Mr. Carenbauer, HLC and HLC Escrow, Inc. have been dismissed. The case was removed to federal court in October 2011. On January 3, 2013, the court granted a conditional class certification only with respect to the declaratory judgment, contempt, unjust enrichment and CCPA claims. The conditional class included consumers with mortgage loans in effect any time after November 8, 2007 who obtained such loans through HLC, and whose loans were closed by persons not admitted to the practice of law in West Virginia or by persons not under the direct supervision of a lawyer admitted to the practice of law in West Virginia. In February 2014, the court granted and denied certain of each party's motions for summary judgment. With respect to the Class Claims, the court granted plaintiff's motions for summary judgment with respect to declaratory judgment, unjust enrichment and violation of the CCPA. The court granted HLC's motion for summary judgment with respect to contempt. In addition, the court denied HLC's motion to decertify the class. With respect to the claims applicable to the named plaintiff only (the "Individual Claims"), HLC's motions for summary judgment were granted with respect to conversion, breach of fiduciary duty, intentional misrepresentation, negligent misrepresentation and outrage. HLC and the plaintiff settled the remaining Individual Claims in June 2014.

In July 2014, the court awarded damages to plaintiffs in the amount of \$2.8 million (the "Class Damages Award"). HLC filed a notice of appeal in August 2014 and in September 2014, plaintiffs filed a motion to dismiss the appeal. In December 2014, the U.S. Court of Appeals for the Fourth Circuit determined that the district court's order was not yet

final, and, accordingly, HLC's appeal was dismissed. In July 2015, the district court ordered that the Class Damages Award be allocated such that two-thirds of the Class Damages Award would be paid to the class members and one-third of the Class Damages would be paid to the plaintiffs' attorneys. In addition, the court ordered that HLC reimburse the class for attorneys' fees by making an incremental payment of \$389,500 attorneys' fee award be paid by HLC to the plaintiffs' attorneys. The judge also awarded prejudgment interest to Plaintiffs. On July 30, 2015, the district court judge entered a final judgment order in this matter. On August 27, 2015, HLC filed its notice of appeal to the U.S. Court of Appeals for the Fourth Circuit with respect to the final judgment, the order granting attorneys' fees, and the orders on class damages, the pretrial conference, motions and class certification. In June 2016, the parties executed a settlement agreement for \$1.9 million with respect to such matters. Such settlement was approved by the district court judge in the third quarter of 2016 and class notice and administration requirements are now complete. During the three months ended September 30, 2016, the Company reversed \$1.3 million of the originally established liability for this matter.

Table of Contents

## LENDINGTREE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Residential Funding Company

Residential Funding Company, LLC v Home Loan Center, Inc., No. 13-cv-3451 (U.S. Dist. Ct., Minn.). On or about December 16, 2013, Home Loan Center, Inc. was served in the above captioned matter. Generally, Residential Funding Company, LLC ("RFC") seeks damages for breach of contract and indemnification for certain residential mortgage loans as well as residential mortgage-backed securitizations ("RMBS") containing mortgage loans. RFC asserts that, beginning in 2008, RFC faced massive repurchase demands and lawsuits from purchasers or insurers of the loans and RMBS that RFC had sold. RFC filed for bankruptcy protection in May 2012. Plaintiff alleges that, after RFC filed for Chapter 11 protection, hundreds of proofs of claim were filed, many of which mirrored the litigation filed against RFC prior to its bankruptcy.

In December 2013, the United States Bankruptcy Court for the Southern District of New York entered an Order confirming the Second Amended Joint Chapter 11 Plan Proposed by Residential Capital, LLC et al. and the Official Committee of Unsecured Creditors. Plaintiff then began filing substantially similar complaints against approximately 80 of the loan originators from whom RFC had purchased loans, including Home Loan Center, in federal and state courts in Minnesota and New York. In each case, Plaintiff claims that the defendant is liable for a portion of the global settlement in RFC's bankruptcy.

Plaintiff asserts two claims against HLC: (1) breach of contract based on HLC's alleged breach of representations and warranties concerning the quality and characteristics of the mortgage loans it sold to RFC (Count One); and (2) contractual indemnification for alleged liabilities, losses, and damages incurred by RFC arising out of purported defects in loans that RFC purchased from HSBC and sold to third parties (Count Two). Plaintiff alleges that the "types of defects" contained in the loans it purchased from HLC included "income misrepresentation, employment misrepresentation, appraisal misrepresentations or inaccuracies, undisclosed debt, and missing or inaccurate documents."

HLC filed a Motion to Dismiss under Rule 12(b)(6) of the Federal Rules of Civil Procedure or, in the alternative, a Motion for More Definite Statement under Rule 12(e). On June 25, 2015 the judge denied HLC's motion.

On July 9, 2015, HLC filed its answer to RFC's complaint, denying the material allegations of the complaint and asserting numerous defenses thereto. Discovery is ongoing in this matter. An estimated liability of \$3.0 million for this matter is included in the accompanying consolidated balance sheet as of September 30, 2016. HLC intends to vigorously defend this action.

## Lehman Brothers Holdings, Inc.

Lehman Brothers Holdings Inc. v. 1st Advantage Mortgage, LLC et al., Case No. 08-13555 (SCC) (Bankr. S.D.N.Y.). In February 2016, Lehman Brothers Holdings, Inc. ("LBHI") filed an Adversary Complaint against Home Loan Center and approximately 149 other defendants (the "Complaint"). The Complaint generally seeks (1) a declaratory judgment that the settlements entered into by LBHI with Fannie Mae and Freddie Mac as part of LBHI's bankruptcy proceedings gave rise to LBHI's contractual indemnification claims against defendants alleged in the Complaint; (2) indemnification from HLC and the other defendants for losses allegedly incurred by LBHI in respect of defective mortgage loans sold by defendants to LBHI or its affiliates; and (3) interest, attorneys' fees and costs incurred by LBHI in the litigation. HLC intends to defend this action vigorously. HLC had previously received a demand letter (the "Letter") from LBHI in December 2014 with respect to 64 loans (the "Loans") that LBHI alleges were sold by HLC to Lehman Brothers Bank, FSB ("LBB") between 2004 and 2008 pursuant to a loan purchase agreement (the "LPA") between HLC and LBB. The Letter generally sought indemnification from HLC in accordance with the LPA for certain claims that LBHI alleged it allowed in its bankruptcy with respect to the Loans. An estimated liability of \$1.0 million for this matter is included in the accompanying consolidated balance sheet as of September 30, 2016.

## NOTE 13—SEGMENT INFORMATION

The Company has one reportable segment.

Mortgage and non-mortgage product revenue is as follows (in thousands):

Edgar Filing: LendingTree, Inc. - Form 10-Q

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Mortgage products	\$53,523	\$44,171	\$164,571	\$118,367
Non-mortgage products	41,035	25,633	118,990	57,508
Total revenue	\$94,558	\$69,804	\$283,561	\$175,875

18

---

Table of Contents

## LENDINGTREE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 14—DISCONTINUED OPERATIONS

The revenue and net loss reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income are as follows (in thousands):

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue	\$1,834	\$1	\$1,835	\$4
Loss before income taxes	\$(1,021)	\$(1,343)	\$(4,640)	\$(3,369)
Income tax benefit	357	48	1,623	131
Net loss	\$(664)	\$(1,295)	\$(3,017)	\$(3,238)

## LendingTree Loans

On June 6, 2012, the Company sold substantially all of the operating assets of its LendingTree Loans business for \$55.9 million in cash to a wholly-owned subsidiary of Discover Financial Services ("Discover"). Discover generally did not assume liabilities of the LendingTree Loans business that arose before the closing date, except for certain liabilities directly related to assets Discover acquired. Of the purchase price paid, as of September 30, 2016, \$4.0 million is being held in escrow in accordance with the agreement with Discover for certain loan loss obligations that remain with the Company following the sale. The escrowed amount is recorded as restricted cash as of September 30, 2016.

Discover participated as a marketplace lender from closing of the transaction through July 2015.

## Significant Assets and Liabilities of LendingTree Loans

Upon closing of the sale of substantially all of the operating assets of the LendingTree Loans business on June 6, 2012, LendingTree Loans ceased to originate consumer loans. The remaining operations are being wound down. These wind-down activities have included, among other things, selling the balance of loans held for sale to investors, paying off and then terminating the warehouse lines of credit and settling derivative obligations, all of which have been completed. Liability for losses on previously sold loans will remain with LendingTree Loans and are discussed below.

## Loan Loss Obligations

LendingTree Loans sold loans it originated to investors on a servicing-released basis, so the risk of loss or default by the borrower was generally transferred to the investor. However, LendingTree Loans was required by these investors to make certain representations and warranties relating to credit information, loan documentation and collateral. These representations and warranties may extend through the contractual life of the loan. Subsequent to the loan sale, if underwriting deficiencies, borrower fraud or documentation defects are discovered in individual loans, LendingTree Loans may be obligated to repurchase the respective loan or indemnify the investors for any losses from borrower defaults if such deficiency or defect cannot be cured within the specified period following discovery. In the case of early loan payoffs and early defaults on certain loans, LendingTree Loans may be required to repay all or a portion of the premium initially paid by the investor.

HLC, a subsidiary of the Company, continues to be liable for these indemnification obligations, repurchase obligations and premium repayment obligations following the sale of substantially all of the operating assets of its LendingTree Loans business in the second quarter of 2012. As of September 30, 2016, approximately \$4.0 million is being held in escrow pending resolution of certain of these contingent liabilities.

Prior to the sale of substantially all of the operating assets of LendingTree Loans in June 2012, it originated approximately 234,000 loans with an original issue balance of \$38.9 billion.



During the fourth quarter of 2015, LendingTree Loans completed a settlement agreement for \$0.6 million with one of the investors to which it had sold loans. This investor accounted for approximately 10% of the total number of loans sold and 12% of the original issue balance. This settlement related to all existing and future losses on loans sold to this investor.

Table of Contents

## LENDINGTREE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the fourth quarter of 2014, LendingTree Loans completed a settlement agreement for \$5.4 million with the largest investor to which it had sold loans. This investor accounted for approximately 40% of both the total number of loans sold and the original issue balance. This settlement related to all existing and future losses on loans sold to this investor.

In the second quarter of 2014, LendingTree Loans completed settlements with two buyers of previously purchased loans.

The following table represents the remaining unsettled loans.

	Number of Loans (in thousands)	Original Issue Balance (in billions)
Loans sold by HLC	234	\$ 38.9
Subsequent settlements	(172 )	(28.8 )
Remaining unsettled loans as of September 30, 2016	62	\$ 10.1

The Company has been negotiating with certain of the remaining secondary market purchasers to settle any existing and future contingent liabilities, but it may not be able to complete such negotiations on acceptable terms, or at all.

Because LendingTree Loans does not service the loans it sold, it does not maintain nor generally have access to the current balances and loan performance data with respect to the individual loans previously sold to investors.

Accordingly, LendingTree Loans is unable to determine, with precision, its maximum exposure for breaches of the representations and warranties it made to the investors that purchased such loans.

The Company uses a settlement discount framework for evaluating the adequacy of the reserve for loan losses. This model estimates lifetime losses on the population of remaining loans originated and sold by LendingTree Loans using actual defaults for loans with similar characteristics and projected future defaults. It also considers the likelihood of claims expected due to alleged breaches of representations and warranties made by LendingTree Loans and the percentage of those claims investors estimate LendingTree Loans may agree to repurchase. A settlement discount factor is then applied to the result of the foregoing to reflect publicly-announced bulk settlements for similar loan types and vintages, as well as LendingTree Loans' non-operating status, in order to estimate a range of potential obligation.

The estimated range of remaining loan losses using this settlement discount framework was determined to be \$4.4 million to \$7.9 million at September 30, 2016. The reserve balance recorded as of September 30, 2016 was \$6.3 million. Management has considered both objective and subjective factors in the estimation process, but given current general industry trends in mortgage loans as well as housing prices and market expectations, actual losses related to LendingTree Loans' obligations could vary significantly from the obligation recorded as of the balance sheet date or the range estimated above.

Additionally, LendingTree has guaranteed certain loans sold to two investors in the event that LendingTree Loans is unable to satisfy its repurchase and warranty obligations related to such loans.

Based on historical experience, it is anticipated that LendingTree Loans will continue to receive repurchase requests and incur losses on loans sold in prior years.

The activity related to loss reserves on previously sold loans is as follows (in thousands):

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Loan loss reserve, beginning of period	\$8,127	\$8,750	\$8,127	\$8,750

Edgar Filing: LendingTree, Inc. - Form 10-Q

Provisions <sup>(a)</sup>	(1,834 )	—	(1,834 )	—
Charge-offs to reserves	—	—	—	—
Loan loss reserve, end of period	\$6,293	\$8,750	\$6,293	\$8,750

During the third quarter of 2016, the Company adjusted the loan loss reserve to remove the estimated liability for (a) loans sold to RFC. The Company is in litigation with RFC and reserved the loss for this litigation in the legal reserve. See Note 12—Contingencies for additional information about the RFC litigation.

The liability for losses on previously sold loans is presented as current liabilities of discontinued operations in the accompanying consolidated balance sheet as of September 30, 2016 and December 31, 2015.

## Table of Contents

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Cautionary Statement Regarding Forward-Looking Information

This report contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. These forward-looking statements also include statements related to our anticipated financial performance, business prospects and strategy; anticipated trends and prospects in the various industries in which our businesses operate; new products, services and related strategies; and other similar matters. These forward-looking statements are based on management's current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. The use of words such as "anticipates," "estimates," "expects," "projects," "intends," "plans" and "believes," among others, generally identify forward-looking statements.

Actual results could differ materially from those contained in the forward-looking statements. Factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include those matters discussed or referenced in Part II, Item 1A. Risk Factors included elsewhere in this quarterly report and Part I, Item 1A. Risk Factors of the 2015 Annual Report.

Other unknown or unpredictable factors that could also adversely affect our business, financial condition and results of operations may arise from time to time. In light of these risks and uncertainties, the forward-looking statements discussed in this report may not prove to be accurate. Accordingly, you should not place undue reliance on these forward-looking statements, which only reflect the views of LendingTree management as of the date of this report. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results or expectations, except as required by law.

#### Company Overview

LendingTree, Inc., is the parent of LendingTree, LLC and several companies owned by LendingTree, LLC.

LendingTree operates what we believe to be the leading online loan marketplace for consumers seeking loans and other credit-based offerings. Our online marketplace provides consumers with access to product offerings from our Network Lenders, including mortgage loans, home equity, reverse mortgage, auto loans, credit cards, personal loans, student loans and small business loans and other related offerings. In addition, we offer tools and resources, including free credit scores, that facilitate comparison shopping for these loan and other credit-based offerings. We seek to match consumers with multiple lenders, who can provide them with competing quotes for the product they are seeking. We also serve as a valued partner to lenders seeking an efficient, scalable and flexible source of customer acquisition with directly measurable benefits, by matching the consumer inquiries we generate with these lenders. Our My LendingTree platform offers a personalized loan comparison-shopping experience by providing free credit scores and credit score analysis. This platform enables us to observe consumers' credit profiles and then identify and alert them to loan and other credit-based opportunities on our marketplace that may be more favorable than the loans they may have at a given point in time. This is designed to provide consumers with measurable savings opportunities over their lifetimes.

In addition to operating our core mortgage business, we are focused on growing our non-mortgage lending businesses and developing new product offerings and enhancements to improve the experiences that consumers and lenders have as they interact with us. By expanding our portfolio of loan and credit-based offerings, we are growing and diversifying our business and sources of revenue. We intend to capitalize on our expertise in performance marketing, product development and technology, and to leverage the widespread recognition of the LendingTree brand to effect this strategy.

The LendingTree Loans business is presented as discontinued operations in the accompanying consolidated balance sheets, consolidated statements of operations and comprehensive income and consolidated cash flows for all periods presented. Except for the discussion under the heading "Discontinued operations," the analysis within Management's Discussion and Analysis of Financial Condition and Results of Operations reflects our continuing operations.

#### Seasonality

Revenue in our lending business is subject to cyclical and seasonal trends. Home sales (and purchase mortgages) typically rise during the spring and summer months and decline during the fall and winter months, while refinancing and home equity



Table of Contents

activity is principally driven by mortgage interest rates as well as real estate values. However, these trends in our business are not absolute and there have been exceptions to them. For example, in recent periods additional factors affecting the mortgage and real estate markets have impacted customary seasonal trends.

We anticipate revenue in our newer products to be cyclical as well; however, we have limited historical data to predict the nature and magnitude of this cyclicity. Other factors affecting our business include macro factors such as credit availability in the market, the strength of the economy and employment.

**Recent Mortgage Interest Rate Trends**

Interest rate and market risks can be substantial in the mortgage lead generation business. Short-term fluctuations in mortgage interest rates primarily affect consumer demand for mortgage refinancings, while long-term fluctuations in mortgage interest rates, coupled with the U.S. real estate market, affect consumer demand for new mortgages.

Consumer demand, in turn, affects lender demand for mortgage leads from third-party sources. Typically, a decline in mortgage interest rates will lead to reduced lender demand, as there are more consumers in the marketplace seeking financing and, accordingly, lenders receive more organic lead volume. Conversely, an increase in mortgage interest rates will typically lead to an increase in lender demand, as there are fewer consumers in the marketplace and, accordingly, the supply of organic mortgage lead volume decreases.

According to Freddie Mac, mortgage interest rates have continued to stay low, at a monthly average of 3.46% in September 2016. On a quarterly basis, mortgage interest rates in the third quarter of 2016 averaged 3.45%, as compared to 3.59% in the second quarter of 2016 and 3.95% in the third quarter of 2015.

Typically, as mortgage interest rates drop, there are more consumers in the marketplace seeking refinancings and, accordingly, the mix of mortgage origination dollars moves towards refinance mortgages. Total refinance origination dollars increased slightly to 47% of total mortgage origination dollars in the third quarter of 2016 over the second quarter of 2016.

Looking forward, Mortgage Bankers Association ("MBA") is projecting mortgage interest rates to remain low through the end of the year, at which MBA projects interest rates to remain steady at an average 3.7% on 30-year fixed rate mortgages. According to MBA projections, the refinance share of total mortgage originations will represent 51% in the fourth quarter of 2016.

**The U.S. Real Estate Market**

The health of the U.S. real estate market and interest rate levels are the primary drivers of consumer demand for new mortgages. Consumer demand, in turn, affects lender demand for purchase mortgage leads from third-party sources. Typically, a strong real estate market will lead to reduced lender demand for leads, as there are more consumers in the marketplace seeking financing and, accordingly, lenders receive more organic lead volume. Conversely, a weaker real estate market will typically lead to an increase in lender demand, as there are fewer consumers in the marketplace seeking mortgages.

Table of Contents

According to the National Association of Realtors ("NAR"), in the third quarter of 2016, existing home sales decreased approximately 3% from the second quarter of 2016 and decreased approximately 1% from the third quarter of 2015, due to limited supply, with existing housing inventory down approximately 7% from a year ago. The NAR expects inventory to remain extremely tight for the remainder of the year.

Results of Operations for the Three and Nine Months ended September 30, 2016 and 2015

	Three Months Ended September 30,				Nine Months Ended September 30,					
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change		
	(Dollars in thousands)									
Mortgage products	\$53,523	\$44,171	\$9,352	21	%	\$164,571	\$118,367	\$46,204	39	%
Non-mortgage products	41,035	25,633	15,402	60	%	118,990	57,508	61,482	107	%
Revenue	94,558	69,804	24,754	35	%	283,561	175,875	107,686	61	%
Costs and expenses:										
Cost of revenue (exclusive of depreciation shown separately below)	3,392	2,436	956	39	%	10,329	6,402	3,927	61	%
Selling and marketing expense	62,819	48,901	13,918	28	%	192,416	118,615	73,801	62	%
General and administrative expense	9,008	7,069	1,939	27	%	26,820	21,336	5,484	26	%
Product development	3,718	2,675	1,043	39	%	11,384	7,238	4,146	57	%
Depreciation	1,286	764	522	68	%	3,458	2,135	1,323	62	%
Amortization of intangibles	166	25	141	564	%	263	124	139	112	%
Restructuring and severance	—	28	(28)	(100)	%	72	422	(350)	(83)	%
Litigation settlements and contingencies	19	133	(114)	(86)	%	109	(663)	(772)	116	%
Total costs and expenses	80,408	62,031	18,377	30	%	244,851	155,609	89,242	57	%
Operating income	14,150	7,773	6,377	82	%	38,710	20,266	18,444	91	%
Other income (expense), net:										
Interest expense	(141)	(1)	140	14,000	%	(424)	(63)	361	573	%
Income before income taxes	14,009	7,772	6,237	80	%	38,286	20,203	18,083	90	%
Income tax expense	(6,729)	(389)	6,340	1,630	%	(15,099)	(968)	14,131	1,460	%
Net income from continuing operations	7,280	7,383	(103)	(1)	%	23,187	19,235	3,952	21	%
Loss from discontinued operations, net of tax	(664)	(1,295)	(631)	(49)	%	(3,017)	(3,238)	(221)	(7)	%
Net income and comprehensive income	\$6,616	\$6,088	\$528	9	%	\$20,170	\$15,997	\$4,173	26	%

Revenue increased in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015 due to increases in our non-mortgage products of \$15.4 million and \$61.5 million, respectively, and in our mortgage products of \$9.4 million and \$46.2 million, respectively.

Our non-mortgage products include the following non-mortgage lending products: personal loans, home equity, reverse mortgage, credit cards, auto loans, student loans and small business loans. Our non-mortgage products also include home improvement referrals and other credit products such as credit repair and debt settlement. Many of our non-mortgage products are not individually significant to revenue. The increase in revenue from our non-mortgage products in the third quarter and first nine months of 2016 from the third quarter and first nine months of 2015 is primarily due to an increase in lenders on our exchange, increased marketing efforts and a small acquisition. This resulted in an increase in the number of consumers completing request forms for the non-mortgage products in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015.

Revenue from our personal loans product increased \$2.0 million to \$17.6 million in the third quarter of 2016 from \$15.6 million in the third quarter of 2015, or 13%, and increased \$16.8 million to \$51.9 million in the first nine months of 2016 from \$35.1 million in the first nine months of 2015, or 48%. Revenue from our personal loans product increased in the third quarter





Table of Contents

and first nine months of 2016 compared to the third quarter and first nine months of 2015 due to an increase in lenders on our exchange and increased marketing efforts, partially offset by decreases in revenue earned per consumer. Certain of our online personal loan lenders experienced well-publicized challenges in the first nine months of 2016, in particular increased pricing demanded by investors of personal loans, which in some cases led to reductions in marketing spend, and tightening in underwriting standards. We believe the market for our non-mortgage products, including personal loans, remains under-penetrated and we believe long-term growth prospects are strong for non-mortgage products. A significant industry-wide contraction in the availability of capital for non-mortgage lending products would likely adversely affect our non-mortgage product revenues. We expect more moderate year-over-year growth in non-mortgage revenue for the fourth quarter of 2016 compared to the year-over-year growth we have seen in the first three quarters of 2016. We expect our personal loan revenue to decrease in the fourth quarter of 2016 compared to the fourth quarter of 2015, while we expect growth in our other non-mortgage products.

For the periods presented, no other non-mortgage product represented more than 10% of revenue, however certain other non-mortgage products experienced notable increases. Revenue from our credit cards product increased by \$3.9 million and \$20.2 million in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015, respectively, due to increases in payouts from issuers in addition to increased marketing efforts. Revenue from our home equity product increased by \$3.7 million and \$10.4 million in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015, respectively, due to an increase in lender coverage and an increase in revenue earned per consumer combined with increased marketing efforts. Student loan revenue increased approximately \$2.4 million in the third quarter of 2016 compared to the third quarter of 2015 due to additional lenders on the student loan network and increased marketing efforts, primarily due to a small acquisition. The increase in revenue from our mortgage products in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015 is primarily due to an increase in revenue from our refinance product. The revenue from our refinance product increased \$10.4 million, in the third quarter of 2016 from the third quarter of 2015, and increased \$42.2 million, in the first nine months of 2016 from the first nine months of 2015, primarily due to an increase in lender demand and an increase in marketing efforts. The number of consumers completing a request form increased in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015, partially offset by a decrease in revenue earned per consumer in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015. We expect more moderate year-over-year growth in mortgage revenue in the fourth quarter of 2016 compared to the year-over-year growth we have seen in the first three quarters of 2016.

**Cost of revenue**

Cost of revenue consists primarily of costs associated with compensation and other employee-related costs (including stock-based compensation) relating to internally-operated call centers, third-party customer call center fees, credit scoring fees, credit card fees, website network hosting and server fees.

Cost of revenue increased in the third quarter of 2016 from the third quarter of 2015, primarily due to increases of \$0.2 million in compensation and benefits as a result of increases in headcount, \$0.2 million in credit scoring fees, \$0.2 million in lead technology fees and \$0.2 million in lead verification fees.

Cost of revenue as a percentage of revenue increased from 3% for the third quarter of 2015 to 4% for the third quarter of 2016.

Cost of revenue increased in the first nine months of 2016 from the first nine months of 2015, primarily due to increases of \$1.0 million in compensation and benefits as a result of increases in headcount, \$0.7 million in credit card fees, \$0.6 million in lead technology fees, \$0.6 million in credit scoring fees, \$0.4 million in third-party call center fees and \$0.4 million in lead verification fees.

Cost of revenue as a percentage of revenue remained flat at 4% for the first nine months of 2015 and the first nine months of 2016.

**Selling and marketing expense**

Selling and marketing expense consists primarily of advertising and promotional expenditures, fees paid for consumer inquiries and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in sales or marketing functions. Advertising and promotional expenditures primarily include online

marketing, as well as television, print and radio spending. Advertising production costs are expensed in the period the related ad is first run.

Table of Contents

The increases in selling and marketing expense in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015 were primarily due to increases in advertising and promotional expense of \$12.8 million and \$70.2 million, respectively, as discussed below. In addition, selling and marketing expense increased in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015 due to an increase in compensation and benefits of \$1.2 million and \$3.6 million, respectively, as a result of increases in headcount.

Advertising and promotional expense is the largest component of selling and marketing expense, and is comprised of the following:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(Dollars in thousands)							
Online	\$48,982	\$34,412	\$14,570	42 %	\$150,075	\$85,135	\$64,940	76 %
Broadcast	8,251	9,736	(1,485 )	(15 )%	25,888	21,069	4,819	23 %
Other	1,003	1,337	(334 )	(25 )%	3,167	2,712	455	17 %
Total advertising expense	\$58,236	\$45,485	\$12,751	28 %	\$179,130	\$108,916	\$70,214	64 %

We increased our advertising expenditures in the third quarter of 2016 compared to the third quarter of 2015 and the first nine months of 2016 compared to the first nine months of 2015 in order to generate additional consumer inquiries to meet the increased demand of lenders on our marketplace.

We will continue to adjust selling and marketing expenditures dynamically in relation to anticipated revenue opportunities.

#### General and administrative expense

General and administrative expense consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in finance, legal, tax, corporate information technology, human resources and executive management functions, as well as facilities and infrastructure costs and fees for professional services.

General and administrative expense increased in the third quarter of 2016 from the third quarter of 2015, primarily due to increases in compensation and benefits of \$0.5 million as a result of increases in headcount, increases in professional fees of \$1.2 million and increases in travel and entertainment expenses of employees of \$0.2 million.

General and administrative expense as a percentage of revenue remained flat at 10% in the third quarter of 2016 and the third quarter of 2015.

General and administrative expense increased in the first nine months of 2016 from the first nine months of 2015, primarily due to increases in compensation and benefits of \$0.9 million as a result of increases in headcount, increases in professional fees of \$5.0 million, increases in technology fees of \$1.6 million and increases in other fees and charges of \$0.9 million, partially offset by decreases in corporate and employee expenses of \$1.5 million and decreases in facility fees of \$1.2 million.

General and administrative expense as a percentage of revenue decreased to 9% in the first nine months of 2016 compared to 12% in the first nine months of 2015.

#### Product development

Product development expense consists primarily of compensation and other employee-related costs (including stock-based compensation) and third-party labor costs that are not capitalized, for employees and consultants engaged in the design, development, testing and enhancement of technology.

Product development expense increased in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015, as we continued to invest in internal development of new and enhanced features, functionality and business opportunities that we believe will enable us to better and more fully serve consumers and lenders. Product development expenses are comprised primarily of compensation and other employee-related costs. We increased headcount in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015 in order to support planned product launches.



## Table of Contents

### Income tax expense

For the third quarter of 2016, the effective tax rate varied from the federal statutory rate of 35% primarily due to state taxes, including the impact of a reduction in the North Carolina state income tax rates which reduced the value of our deferred tax assets.

For the first nine months of 2016, the effective tax rate varied from the federal statutory rate of 35% primarily due to the benefit derived from the federal research tax credit, partially offset by state taxes, including the impact of state tax reductions. The federal research tax credit benefit is the result of a study completed during the second quarter for the open tax years of 2011 through 2015, plus an estimate of the benefit from current research activities.

For the third quarter and first nine months of 2015, the effective tax rate varied from the federal statutory rate of 35% primarily due to the existence of a valuation allowance that has been provided to offset our net deferred tax asset and state taxes. During the fourth quarter of 2015, we released the majority of the valuation allowance.

There have been no changes to our valuation allowance assessment for the third quarter and first nine months of 2016.

### Discontinued operations

Losses from discontinued operations are attributable to losses associated with the LendingTree Loans business, the sale of which was completed on June 6, 2012. Losses from discontinued operations were primarily due to litigation settlements and contingencies and legal fees associated with ongoing legal proceedings.

### Adjusted EBITDA

We report Adjusted EBITDA as a supplemental measure to GAAP. This measure is the primary metric by which we evaluate the performance of our businesses, on which our marketing expenditures and internal budgets are based and by which management and many employees are compensated. We believe that investors should have access to the same set of tools that we use in analyzing our results. This non-GAAP measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. We provide and encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measures discussed below.

#### Definition of Adjusted EBITDA

We report Adjusted EBITDA as operating income or loss (which excludes interest expense and taxes) adjusted to exclude amortization of intangibles and depreciation, and to further exclude (1) non-cash compensation expense, (2) non-cash impairment charges, (3) gain/loss on disposal of assets, (4) restructuring and severance expenses, (5) litigation settlements and contingencies and legal fees for certain patent litigation, (6) adjustments for acquisitions or dispositions, and (7) one-time items. Adjusted EBITDA has certain limitations in that it does not take into account the impact to our statement of operations of certain expenses, including depreciation, non-cash compensation and acquisition-related accounting. We endeavor to compensate for the limitations of the non-GAAP measures presented by also providing the comparable GAAP measures with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measures. These non-GAAP measures may not be comparable to similarly titled measures used by other companies.

#### One-Time Items

Adjusted EBITDA is adjusted for one-time items, if applicable. Items are considered one-time in nature if they are non-recurring, infrequent or unusual and have not occurred in the past two years or are not expected to recur in the next two years, in accordance with SEC rules. For the periods presented in this report, there are no adjustments for one-time items, except for \$0.1 million related to an estimated settlement for unclaimed property in the first nine months of 2015.

#### Non-Cash Expenses that are Excluded from Adjusted EBITDA

Non-cash compensation expense consists principally of expense associated with grants of restricted stock, restricted stock units and stock options. These expenses are not paid in cash, and we include the related shares in our calculations of fully diluted shares outstanding. Upon settlement of restricted stock units, exercise of certain stock options or vesting of restricted stock awards, the awards may be settled, on a net basis, with us remitting the required tax withholding amount from our current funds.



Table of Contents

Amortization of intangibles are non-cash expenses relating primarily to intangible assets acquired through acquisitions. At the time of an acquisition, the intangible assets of the acquired company, such as purchase agreements, technology and customer relationships, are valued and amortized over their estimated lives.

The following table is a reconciliation of Adjusted EBITDA to net income from continuing operations.

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Adjusted EBITDA	\$18,452	\$10,999	\$50,909	\$28,837
Adjustments to reconcile to net income from continuing operations:				
Amortization of intangibles	(166 )	(25 )	(263 )	(124 )
Depreciation	(1,286 )	(764 )	(3,458 )	(2,135 )
Restructuring and severance	—	(28 )	(72 )	(422 )
Loss on disposal of assets	(121 )	(64 )	(388 )	(102 )
Non-cash compensation	(2,348 )	(1,978 )	(7,410 )	(6,233 )
Estimated settlement for unclaimed property	—	—	—	(134 )
Acquisition expense	(362 )	(234 )	(499 )	(84 )
Litigation settlements and contingencies	(19 )	(133 )	(109 )	663
Interest expense	(141 )	(1 )	(424 )	(63 )
Income tax expense	(6,729 )	(389 )	(15,099 )	(968 )
Net income from continuing operations	\$7,280	\$7,383	\$23,187	\$19,235

## Financial Position, Liquidity and Capital Resources

## General

As of September 30, 2016, we had \$176.9 million of cash and cash equivalents and \$4.1 million of restricted cash and cash equivalents, compared to \$207.0 million of cash and cash equivalents and \$6.5 million of restricted cash and cash equivalents as of December 31, 2015.

During the first nine months of 2016, the Company purchased 690,218 shares of its common stock pursuant to a stock repurchase program for \$48.5 million.

In November 2015, the Company completed an equity offering of 852,500 shares of its common stock. The Company received net proceeds of \$91.5 million, after deducting approximately \$5.9 million in underwriting discounts and \$0.7 million in offering expenses. The Company expects to use the net proceeds of the offering for general corporate purposes, including but not limited to, working capital and potential acquisitions.

We expect our cash and cash equivalents and cash flows from operations to be sufficient to fund our operating needs for the next twelve months and beyond. Our revolving credit facility described below is an additional potential source of liquidity.

## Senior Secured Revolving Credit Facility

On October 22, 2015, we established a \$125.0 million five-year Senior Secured Revolving Credit Facility which matures on October 22, 2020 (the "Revolving Credit Facility"). The proceeds of the Revolving Credit Facility can be used to finance working capital needs, capital expenditures and general corporate purposes, including to finance permitted acquisitions. As of October 27, 2016, we do not have any borrowings outstanding under the Revolving Credit Facility.

For additional information on the Revolving Credit Facility, see Note 11—Revolving Credit Facility, in Part I Item 1, Financial Statements.

Table of Contents

## Cash Flows from Continuing Operations

Our cash flows attributable to continuing operations are as follows:

	Nine Months Ended September 30,	
	2016	2015
	(in thousands)	
Net cash provided by operating activities	\$33,184	\$31,096
Net cash used in investing activities	(10,067 )	(4,207 )
Net cash used in financing activities	(45,947 )	(5,965 )

## Cash Flows from Operating Activities

Our largest source of cash provided by our operating activities is revenues generated by our mortgage and non-mortgage products. Our primary uses of cash from our operating activities include advertising and promotional payments and fees paid for consumer inquiries. In addition, our uses of cash from operating activities include compensation and other employee-related costs, other general corporate expenditures, litigation settlements and contingencies and income taxes.

Net cash provided by operating activities attributable to continuing operations increased in the first nine months of 2016 from the first nine months of 2015 primarily due to an increase in revenue, partially offset by an increase in cost of revenue and selling marketing. Additionally, there was a net decrease in cash from changes in working capital primarily driven by changes in accounts receivable, income taxes payable and accounts payable, accrued expenses and other current liabilities.

## Cash Flows from Investing Activities

Net cash used in investing activities attributable to continuing operations in the first nine months of 2016 of \$10.1 million consisted primarily of capital expenditures of \$8.0 million primarily related to internally developed software and the acquisition of an aircraft and \$4.5 million for the acquisition of SimpleTuition, partially offset by a \$2.5 million decrease in restricted cash due to the release of funds in escrow for the surety bonds due to a reduction in collateral requirements.

Net cash used in investing activities attributable to continuing operations in the first nine months of 2015 of \$4.2 million consisted primarily of capital expenditures of \$4.3 million primarily related to internally developed software.

## Cash Flows from Financing Activities

Net cash used in financing activities attributable to continuing operations in the first nine months of 2016 of \$45.9 million consisted primarily of the repurchase of our stock of \$48.5 million and \$3.1 million in withholding taxes paid by us upon surrender of shares to satisfy obligations on equity awards; offset by \$5.7 million in excess tax benefits from stock-based award activity.

Net cash used in financing activities attributable to continuing operations in the first nine months of 2015 of \$6.0 million consisted primarily of \$6.1 million in employee withholding taxes paid by us upon employees' surrender of shares to satisfy withholding obligations on equity awards, \$0.2 million for the repurchase of our common stock and \$0.1 million in dividend payments; offset by \$0.5 million in excess tax benefits from stock-based award activity.

## Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements other than our operating lease obligations and funding commitments pursuant to our surety bonds, none of which have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## New Accounting Pronouncements

For information regarding new accounting pronouncements, see Note 2- Significant Accounting Policies, in Part I, Item 1 Financial Statements.



Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Other than our Revolving Credit Facility, which currently has no borrowings outstanding, we do not have any financial instruments that are exposed to significant market risk. We maintain our cash and cash equivalents in short-term, highly liquid money market investments. A hypothetical 100-basis point increase or decrease in market interest rates would not have a material impact on the fair value of our cash equivalents securities, or our earnings on such cash equivalents, but would have an effect on the interest paid on borrowings under the Revolving Credit Facility, if any.

Fluctuations in interest rates affect consumer demand for new mortgages and the level of refinancing activity which, in turn, affects lender demand for mortgage leads. Typically, a decline in mortgage interest rates will lead to reduced lender demand for leads from third-party sources, as there are more consumers in the marketplace seeking refinancings and, accordingly, lenders receive more organic lead volume. Conversely, an increase in mortgage interest rates will typically lead to an increase in lender demand for third-party leads, as there are fewer consumers in the marketplace and, accordingly, the supply of organic mortgage lead volume decreases.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), management, with the participation of our principal executive officer (our Chief Executive Officer) and principal financial officer (our Chief Financial Officer), evaluated, as of the end of the period covered by this report, the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of September 30, 2016, to reasonably ensure that information required to be disclosed and filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified, and that management will be timely alerted to material information required to be included in our periodic reports filed with the Securities and Exchange Commission.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, we are party to litigation involving property, contract, intellectual property and a variety of other claims. The amounts that may be recovered in such matters may be subject to insurance coverage. We have provided information about certain legal proceedings in which we are involved in Part I, Item 3 Legal Proceedings of our 2015 Annual Report and updated that information in Note 12—Contingencies to the consolidated financial statements included elsewhere in this report.

Item 1A. Risk Factors

Other than the risk factor set forth below, there have been no material changes to the risk factors included in Part II, Item 1A. Risk Factors of our quarterly report on Form 10-Q for the quarter ended June 30, 2016 and Part I, Item 1A. Risk Factors of our 2015 Annual Report.

A significant portion of our total revenue is derived from two Network Lenders, and our results from operations could be adversely affected and stockholder value harmed if we lose significant business from either of these Network Lenders.

For the years ended December 31, 2015, 2014 and 2013, one Network Lender accounted for 12%, 13% and 12%, respectively, of total revenue and another Network Lender accounted for 11%, 11% and 12%, respectively, of total revenue. If either of these significant Network Lenders were to cease purchasing loan requests and the Company were unable to replace the associated demand, the loss could have a material adverse effect on our results of operations in the short term and potentially also the longer term. Also, if either Network Lender reduces its volume of loan requests for any reason, our business could be adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

In each of January 2010, May 2014, January 2016 and February 2016, the board of directors authorized and we announced a stock repurchase program which allowed for the repurchase of up to \$10.0 million, \$10.0 million, \$50.0 million and \$40.0 million, respectively, of our common stock. At September 30, 2016, approximately \$48.7 million remains authorized for share repurchase under this program. Under this program, we can repurchase stock in the open market or through privately-negotiated transactions. We have used available cash to finance these repurchases. We will determine the timing and amount of any additional repurchases based on our evaluation of market conditions, applicable SEC guidelines and regulations, and other factors. This program may be suspended or discontinued at any time at the discretion of our board of directors. During the quarter ended September 30, 2016, 3,591 shares of common stock were repurchased under the stock repurchase program.

Additionally, the LendingTree Fourth Amended and Restated 2008 Stock and Award Incentive Plan allows employees to forfeit shares of our common stock to satisfy federal and state withholding obligations upon the exercise of stock options, the settlement of restricted stock unit awards and the vesting of restricted stock awards granted to those individuals under this plan. During the quarter ended September 30, 2016, 3,242 shares were purchased related to these obligations under the LendingTree Fourth Amended and Restated 2008 Stock and Award Incentive Plan. The withholding of those shares does not affect the dollar amount or number of shares that may be purchased under the stock repurchase program described above.

Table of Contents

The following table provides information about the company's purchases of equity securities during the quarter ended September 30, 2016.

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in thousands)
7/1/16 - 7/31/16	3,571	\$ 93.58	3,555	\$ 48,752
8/1/16 - 8/31/16	3,226	\$ 107.95	—	\$ 48,752
9/1/16 - 9/30/16	36	\$ 94.99	36	\$ 48,748
Total	6,833	\$ 100.37	3,591	\$ 48,748

(1) During July 2016, August 2016 and September 2016, 16 shares, 3,226 shares and 0 shares, respectively (totaling 3,242 shares), were purchased to satisfy federal and state withholding obligations of our employees upon the settlement of restricted stock unit awards, all in accordance with our Fourth Amended and Restated 2008 Stock and Award Incentive Plan, as described above.

(2) See the narrative disclosure above the table for further description of our publicly announced stock repurchase program.

## Item 5. Other Information

None.

## Item 6. Exhibits

Exhibit	Description	Location
3.1	Amended and Restated Certificate of Incorporation of LendingTree, Inc.	Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed August 25, 2008
3.2	Third Amended and Restated By-laws of LendingTree, Inc.	Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed December 31, 2014
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	†
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	†
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	††
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted 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 Document	†††

† Filed herewith

31

---

Table of Contents

†† This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and is not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

††† Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto 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, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

\*Management contract or compensation plan or arrangement.

Table of Contents

SIGNATURE

Pursuant to the requirements 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.

Date: October 28, 2016

LENDINGTREE, INC.

By: /s/ GABRIEL DALPORTO

Gabriel Dalporto

Chief Financial Officer

(principal financial officer and duly authorized officer)