LendingTree, Inc.
Form 10-Q
July 27, 2018
Table of Contents

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2018
Or
o 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 incorporation or organization)	(I.R.S. Employer 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 ý No o
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 ý No o
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ý
As of July 20, 2018, there were 12,816,845 shares of the Registrant's common stock, par value $.01 per share, outstanding, excluding treasury shares.

TABLE OF CONTENTS

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Revenue	$184,101	$152,773	$365,136	$285,288
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	6,043	4,164	11,739	7,755
Selling and marketing expense	123,946	109,141	249,990	202,392
General and administrative expense	24,759	12,094	47,573	23,641
Product development	5,967	4,064	12,227	7,687
Depreciation	1,633	1,808	3,304	3,511
Amortization of intangibles	3,964	2,608	7,927	5,217
Change in fair value of contingent consideration	(167)	9,393	(908)	18,139
Severance	3	247	3	404
Litigation settlements and contingencies	(170)	285	(192)	689
Total costs and expenses	165,978	143,804	331,663	269,435
Operating income	18,123	8,969	33,473	15,853
Other (expense) income, net:				
Interest expense, net	(2,924)	(1,079)	(5,912)	(1,244)
Other (expense) income	(71)	13	(37)	13
Income before income taxes	15,128	7,903	27,524	14,622
Income tax benefit	29,721	104	53,182	1,183
Net income from continuing operations	44,849	8,007	80,706	15,805
Loss from discontinued operations, net of tax	(2,302)	(689)	(6,635)	(1,621)
Net income and comprehensive income	$42,547	$7,318	$74,071	$14,184
Weighted average shares outstanding:				
Basic	12,416	11,965	12,254	11,896
Diluted	14,147	13,604	14,527	13,552
Income per share from continuing operations:				
Basic	$3.61	$0.67	$6.59	$1.33
Diluted	$3.17	$0.59	$5.56	$1.17
Loss per share from discontinued operations:				
Basic	$(0.19)	$(0.06)	$(0.54)	$(0.14)
Diluted	$(0.16)	$(0.05)	$(0.46)	$(0.12)
Net income per share:				
Basic	$3.43	$0.61	$6.04	$1.19
Diluted	$3.01	$0.54	$5.10	$1.05

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

3

Table of Contents

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

	June 30, 2018	December 31, 2017
	(in thousands, except par value and share amounts)	
ASSETS:		
Cash and cash equivalents	$293,301	$ 368,550
Restricted cash and cash equivalents	49	4,091
Accounts receivable (net of allowance of $1,191 and $675, respectively)	80,135	53,444
Prepaid and other current assets	13,856	11,881
Current assets of discontinued operations	175	75
Total current assets	387,516	438,041
Property and equipment (net of accumulated depreciation of $12,689 and $13,043, respectively)	37,876	36,431
Goodwill	124,903	113,368
Intangible assets, net	81,654	81,125
Deferred income tax assets	73,163	20,156
Other non-current assets	1,793	1,910
Non-current assets of discontinued operations	2,428	2,428
Total assets	$709,333	$ 693,459
LIABILITIES:		
Accounts payable, trade	$11,066	$ 9,250
Accrued expenses and other current liabilities	70,721	77,183
Current contingent consideration	7,283	46,576
Current liabilities of discontinued operations (Note 15)	18,782	14,507
Total current liabilities	107,852	147,516
Long-term debt	244,480	238,199
Non-current contingent consideration	7,958	11,273
Other non-current liabilities	1,615	1,597
Total liabilities	361,905	398,585
Commitments and contingencies (Note 12)		
SHAREHOLDERS' EQUITY:		
Preferred stock $.01 par value; 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock $.01 par value; 50,000,000 shares authorized; 15,138,620 and 14,218,572 shares issued, respectively, and 12,742,751 and 11,979,434 shares outstanding, respectively	151	142
Additional paid-in capital	1,110,688	1,087,582
Accumulated deficit	(632,910)	(708,354)
Treasury stock; 2,395,869 and 2,239,138 shares, respectively	(131,088)	(85,085)
Noncontrolling interest	587	589
Total shareholders' equity	347,428	294,874
Total liabilities and shareholders' equity	$709,333	$ 693,459

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)

		Common Stock				Treasury Stock		
	Total	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Number of Shares	Amount	Noncontrolling Interest
	(in thousands)							
Balance as of December 31, 2017	$294,874	14,218	$ 142	$1,087,582	$(708,354)	2,239	$(85,085)	$ 589
Net income and comprehensive income	74,071	—	—	—	74,071	—	—	—
Non-cash compensation	22,287	—	—	22,287	—	—	—	—
Purchase of treasury stock	(46,003)	—	—	—	—	157	(46,003)	—
Issuance of common stock for stock options, restricted stock awards and restricted stock units, net of withholding taxes	832	920	9	823	—	—	—	
Cumulative effect adjustment due to ASU 2014-09	1,373	—	—	—	1,373	—	—	—
Issuance of 0.625% Convertible Senior Notes, net	(4)	—	—	(4)	—	—	—	—
Noncontrolling interest	(2)	—	—	—	—	—	—	(2)
Balance as of June 30, 2018	$347,428	15,138	$ 151	$1,110,688	$(632,910)	2,396	$(131,088)	$ 587

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)

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net income and comprehensive income	$74,071	$14,184
Less: Loss from discontinued operations, net of tax	6,635	1,621
Income from continuing operations	80,706	15,805
Adjustments to reconcile income from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Loss on impairments and disposal of assets	1,889	309
Amortization of intangibles	7,927	5,217
Depreciation	3,304	3,511
Rental amortization of intangibles and depreciation	396	525
Non-cash compensation expense	22,287	5,130
Deferred income taxes	(56,197)	(6,319)
Change in fair value of contingent consideration	(908)	18,139
Bad debt expense	513	96
Amortization of debt issuance costs	865	231
Amortization of convertible debt discount	5,623	909
Changes in current assets and liabilities:		
Accounts receivable	(26,841)	(10,052)
Prepaid and other current assets	(787)	(323)
Accounts payable, accrued expenses and other current liabilities	(3,970)	16,852
Current contingent consideration	(21,900)	—
Income taxes receivable	2,522	(1,524)
Other, net	(165)	(282)
Net cash provided by operating activities attributable to continuing operations	15,264	48,224
Cash flows from investing activities attributable to continuing operations:		
Capital expenditures	(6,747)	(3,611)
Acquisition of Ovation, net of cash acquired	(11,683)	—
Acquisition of SnapCap	(10)	—
Acquisition of DepositAccounts	—	(24,000)
Acquisition of MagnifyMoney, net of cash acquired	—	(29,415)
Other investing activities	(1)	—
Net cash used in investing activities attributable to continuing operations	(18,441)	(57,026)
Cash flows from financing activities attributable to continuing operations:		
Proceeds from exercise of stock options, net of payments related to net-share settlement of stock-based compensation	895	1,274
Contingent consideration payments	(25,600)	—
Proceeds from the issuance of 0.625% Convertible Senior Notes	—	300,000
Payment of convertible note hedge transactions	—	(61,500)
Proceeds from the sale of warrants	—	43,410
Payment of debt issuance costs	(84)	(8,572)
Purchase of treasury stock	(47,101)	—
Net cash (used in) provided by financing activities attributable to continuing operations	(71,890)	274,612

Total cash (used in) provided by continuing operations	(75,067)	265,810
Discontinued operations:		
Net cash used in operating activities attributable to discontinued operations	(4,224)	(1,305)
Total cash used in discontinued operations	(4,224)	(1,305)
Net (decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(79,291)	264,505
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	372,641	95,220
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	$293,350	$359,725

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

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 loan marketplace for consumers seeking loans and other credit-based offerings. The Company offers consumers tools and resources, including free credit scores, that facilitate comparison-shopping for mortgage loans, home equity loans and lines of credit, reverse mortgage loans, auto loans, credit cards, deposit accounts, personal loans, student loans, 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, deposits 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 15—Discontinued Operations for additional information.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements as of June 30, 2018 and for the three and six months ended June 30, 2018 and 2017, 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 statement of the Company's financial position for the periods presented. The results for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018, or any other period. The accompanying consolidated balance sheet as of December 31, 2017 was derived from audited financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2017 (the "2017 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 2017 Annual Report.

Certain prior year amounts have been reclassified to conform to current year presentation. See the discussion in Note 2—Significant Accounting Policies for the impact of adopting Accounting Standards Update ("ASU") 2016-18 on the presentation of changes in restricted cash in the statement of cash flows.

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; fair value of assets acquired in a business combination; contingent consideration related to business combinations; litigation accruals; contract assets; various other allowances, reserves and accruals; and assumptions related to the determination of stock-based compensation.

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 June 30, 2018, 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 June 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-07 which simplifies the accounting for nonemployee share-based payments by expanding the scope of Accounting Standards Codification ("ASC") Topic 718, Compensation—Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. Under the new guidance, most of the initial and subsequent measurement for such payments to nonemployees is aligned with the requirements for share-based payments to employees. This ASU is effective for annual and interim reporting periods beginning after December 15, 2018, with early adoption permitted. Entities must transition to the new guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company early-adopted this ASU during the second quarter of 2018, with no impact to its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09 which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions or the classification of the award changes as a result of the change in terms or conditions. This ASU is effective prospectively for annual periods beginning on or after December 15, 2017, and early adoption was permitted. The Company adopted this ASU during the first quarter of 2018.

In January 2017, the FASB issued ASU 2017-04 which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge (Step 2 of the goodwill impairment test). Instead, an impairment charge will be based on the excess of the carrying amount over the fair value. This ASU is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is evaluating the impact this ASU will have on its consolidated financial statements and whether to early adopt.

8

In November 2016, the FASB issued ASU 2016-18 which is intended to reduce the diversity in the classification and presentation of changes in restricted cash in the statement of cash flows, by requiring entities to combine the changes in cash and cash equivalents and restricted cash in one line. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. In addition, if more than one line item is recorded on the balance sheet for cash and cash equivalents and restricted cash, a reconciliation between the statement of cash flows and balance sheet is required. This ASU is effective for annual and interim reporting periods beginning after December 15, 2017, and early adoption was permitted. The retrospective transition method, requiring adjustment to all comparative periods presented, is required. The Company adopted this ASU during the first quarter of 2018. The adoption resulted in an immaterial reclassification of cash outflows from investing activities to operating activities for the six months ended June 30, 2017. See Note 4—Cash and Restricted Cash for the reconciliation of cash and cash equivalents and restricted cash reported on the balance sheet to the total of such amounts shown on the statement of cash flows.

In August 2016, the FASB issued 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, and early adoption was 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 adopted this ASU during the first quarter of 2018, and there was no adjustment to prior periods. Pursuant to adoption of this ASU, contingent consideration payments made are classified as cash outflows from financing activities up to the amount of the contingent consideration liability recognized at the acquisition date, and the portion of payments in excess of that initial liability are classified as cash outflows from operating activities. See Note 6—Business Acquisitions for additional information.

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 will adopt the ASU as of January 1, 2019.

In May 2014, the FASB issued ASU 2014-09 related to revenue recognition. This guidance introduces ASC Topic 606, Revenue from Contracts with Customers, and supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition. In 2016, the FASB issued final amendments clarifying implementation guidance for principal versus agent considerations, identifying performance obligations, assessing collectability, presenting sales taxes, measuring noncash consideration and certain other transition matters. The clarification ASUs must be adopted concurrently with the adoption of ASU 2014-09 (collectively, "ASC Topic 606"). Under the new ASUs, the timing of recognizing revenue for closing fees and approval fees in the Company's non-mortgage product category has been accelerated to the point when a loan request or a credit card consumer is delivered to the customer as opposed to when the consumer loan is closed by the lender or credit card approval is made by the issuer and communicated to the Company.

The Company has adopted ASC Topic 606 as of January 1, 2018 using the modified retrospective transition approach. The Company recognized the cumulative effect of initially applying ASC Topic 606 as an adjustment to the opening balance of accumulated deficit. Under this approach, revenue for 2017 is reported in the consolidated statements of operations and comprehensive income on the historical basis, and revenue for 2018 is reported in the consolidated statements of operations and comprehensive income under ASC Topic 606. A comparison of revenue for 2018 periods to the historical basis is included below. The Company does not expect the adoption of ASC Topic 606 to have a material effect on annual revenue or net income from continuing operations on an ongoing basis. See Note 3—Revenue for additional information.

Table of Contents

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

The cumulative effect of the changes made to the consolidated January 1, 2018 balance sheet for the adoption of ASC Topic 606 were as follows (in thousands):

	December 31, 2017	Adjustments due to ASC Topic 606	January 1, 2018
Assets:			
Prepaid and other current assets	$11,881	$ 1,903	$13,784
Deferred income tax assets	20,156	(530)	19,626
Shareholders' equity:			
Accumulated deficit	$(708,354)	$ 1,373	$(706,981)

The impact of adoption on the consolidated income statement and balance sheet for the periods ended June 30, 2018 was as follows (in thousands):

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Balances without adoption of ASC Topic 606	Effect of Change	As Reported	Balances without adoption of ASC Topic 606	Effect of Change
Revenue	$184,101	$183,400	$ 701	$365,136	$364,244	$ 892
Costs and expenses:						
Income tax benefit	29,721	29,900	(179)	53,182	53,413	(231)
Net income from continuing operations	$44,849	$44,327	$ 522	$80,706	$80,045	$ 661

	June 30, 2018		
	As Reported	Balances without adoption of ASC Topic 606	Effect of Change
Assets:			
Prepaid and other current assets	$13,856	$11,061	$2,795
Deferred income tax assets	73,163	73,693	(530)
Shareholders' equity:			
Accumulated deficit	$(632,910)	$(635,175)	$2,265

Table of Contents

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

NOTE 3—REVENUE

Revenue is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
Mortgage products	$66,948	$71,515	$140,410	$134,453
Non-mortgage products				
Credit cards	38,747	36,992	84,879	70,765
Personal loans	36,210	20,521	62,175	37,535
Other	42,196	23,745	77,672	42,535
Total non-mortgage products	117,153	81,258	224,726	150,835
Total revenue	$184,101	$152,773	$365,136	$285,288

The Company derives its revenue primarily from match fees and closing fees. Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied and promised services have transferred to the customer. In identifying performance obligations, judgment is required around contracts where there was a possibility of bundled services and multiple parties. In applying judgment, the Company considered customer expectations of performance, materiality and the core principles of ASC Topic 606. The Company's services are generally transferred to the customer at a point in time.

Variable consideration is included in revenue if it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Certain recent acquisitions have not been included in the estimate of variable consideration due to lack of historical information to determine an estimate. The estimate for variable consideration will be included as historical experience is developed.

Revenue within the mortgage product category is primarily generated from upfront match fees paid by network lenders that receive a loan request, and in some cases upfront fees for clicks or call transfers. Match fees and upfront fees for clicks and call transfers are earned through the delivery of loan requests that originated through the Company's websites or affiliates. The Company recognizes revenue at the time a loan request is delivered to the customer, provided that no significant obligations remain. Revenue recognition on match fees was not impacted by the adoption of ASC Topic 606, as the Company's contractual right to the match fee consideration is contemporaneous with the satisfaction of the performance obligation to deliver a loan request to the customer.

In addition to match and other upfront fees, revenue within the non-mortgage product category is also generated from closing fees and approval fees.

Closing fees are derived from lenders on certain auto loans, business loans, personal loans and student loans when the lender funds a loan with the consumer. Prior to the adoption of ASC Topic 606, closed loan fees were recognized at the time the lender reported the closed loan to the Company, which could be several months after the original request was transmitted.

Approval fees are derived from credit card issuers when the credit card consumer receives card approval from the credit card issuer. Prior to the adoption of ASC Topic 606, approval fees were recognized at the time the credit card issuer reported the card approval for the consumer to the Company, which is generally within two weeks after the consumer's request was transmitted.

Under ASC Topic 606, the timing of recognizing revenue for closing fees and approval fees is accelerated to the point when a loan request or a credit card consumer is delivered to the customer, as opposed to when the consumer loan is closed by the lender or credit card approval is made by the issuer. The Company's contractual right to closing fees and approval fees is not contemporaneous with the satisfaction of the performance obligation to deliver a loan request or a credit card consumer to the customer. As such, the Company will record a contract asset at each reporting period-end related to the estimated variable consideration on closing fees and approval fees for which the Company has satisfied the related performance obligation, but are still pending the loan closing or credit card approval before the Company has a contractual right to payment. This estimate is based on the Company's historical closing rates and historical time between when a consumer request for a loan or credit card is delivered to the lender or card issuer and when the loan is closed by the lender or approved by the card issuer. The term between satisfaction

Table of Contents

of the Company's performance obligation and when the Company's right to consideration becomes unconditional is generally less than 90 days.

Upfront fees and subscription fees are derived from consumers in our credit services business, which was acquired on June 11, 2018. Upfront fees paid by consumers are recognized as revenue over the estimated time the consumer will remain a customer and receive services. Subscription fees are recognized over the period a consumer is receiving services.

The contract asset recorded within prepaid and other current assets on the consolidated balance sheets related to estimated variable consideration was $1.9 million and $2.8 million on January 1, 2018 and June 30, 2018, respectively. The increase in the contract asset from January 1, 2018 to June 30, 2018 is primarily due to increases in the number of consumers sent to personal loan lenders and timing within the quarter of consumers sent to credit card issuers.

As a result of the acquisition of Ovation Credit Services, Inc. ("Ovation") on June 11, 2018, a $0.1 million contract liability was recorded within accrued expenses and other current liabilities on the June 30, 2018 consolidated balance sheet related to the upfront fees paid by consumers.

Revenue recognized in any reporting period includes estimated variable consideration for which the Company has satisfied the related performance obligations, but are still pending the occurrence or non-occurrence of a future event outside the Company's control (such as lenders providing loans to consumers or credit card approvals of consumers) before the Company has a contractual right to payment. The Company recognized an increase to such revenue from prior periods of $0.2 million in the second quarter of 2018.

Both the mortgage and non-mortgage product categories are included in the Company's single reportable segment.

Our payment terms vary by customer and services offered. The term between invoicing and when payment is due is generally 30 days or less.

Sales commissions are incremental costs of obtaining contracts with customers. The Company expenses sales commissions when incurred as the duration of contracts with customers is less than one year, based on the right for either party to terminate the contract with less than one year's notice without compensation to either party. These costs are recorded within selling and marketing expense on the consolidated statements of operations and comprehensive income.

NOTE 4—CASH AND RESTRICTED CASH

Total cash, cash equivalents, restricted cash and restricted cash equivalents consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Cash and cash equivalents	$293,301	$ 368,550
Restricted cash and cash equivalents	49	4,091
Total cash, cash equivalents, restricted cash and restricted cash equivalents	$293,350	$ 372,641

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

	June 30, 2018	December 31, 2017
Cash in escrow from sale of LendingTree Loans [(a)]	$ —	$ 4,034
Other	49	57
Total restricted cash and cash equivalents	$ 49	$ 4,091

(a) Home Loan Center, Inc. ("HLC"), a subsidiary of the Company, continues to be liable for certain 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. Of the purchase price received, a portion was deposited in escrow in accordance with the agreement with Discover for certain loan loss obligations that remain with the Company following the sale. During the second quarter of 2018, the remaining funds in escrow were released to the Company in accordance with the terms of the agreement with Discover.

Table of Contents

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

NOTE 5—GOODWILL AND INTANGIBLE ASSETS

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

	Goodwill	Accumulated Impairment Loss	Net Goodwill
Balance at December 31, 2017	$596,456	$ (483,088)	$113,368
Acquisition of Ovation	11,535	—	11,535
Balance at June 30, 2018	$607,991	$ (483,088)	$124,903

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

	June 30, 2018	December 31, 2017
Intangible assets with indefinite lives	$10,142	$ 10,142
Intangible assets with definite lives, net	71,512	70,983
Total intangible assets, net	$81,654	$ 81,125

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	$43,500	$ (13,208)	$30,292
Customer lists	34,800	(4,715)	30,085
Trademarks and tradenames	7,942	(2,627)	5,315
Tenant leases	1,362	(748)	614
Website content	7,800	(2,600)	5,200
Other	256	(250)	6
Balance at June 30, 2018	$95,660	$ (24,148)	$71,512

	Cost	Accumulated Amortization	Net
Technology	$37,500	$ (8,694)	$28,806
Customer lists	33,100	(3,239)	29,861
Trademarks and tradenames	6,942	(1,992)	4,950
Tenant leases	1,362	(504)	858
Website content	7,800	(1,300)	6,500
Other	256	(248)	8
Balance at December 31, 2017	$86,960	$ (15,977)	$70,983

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 June 30, 2018, future amortization is estimated to be as follows (in thousands):

	Amortization Expense
Remainder of current year	$ 9,483
Year ending December 31, 2019	17,952
Year ending December 31, 2020	15,077
Year ending December 31, 2021	6,870
Year ending December 31, 2022	4,884
Thereafter	17,246
Total intangible assets with definite lives, net	$ 71,512

NOTE 6—BUSINESS ACQUISITION

2018 Acquisition

Ovation

On June 11, 2018, the Company acquired Ovation Credit Services, Inc., a leading provider of credit services with a strong customer service reputation. Ovation utilizes a proprietary software application that facilitates the credit repair process and is integrated directly with certain credit bureaus while educating consumers on credit improvement via ongoing outreach with Ovation case advisors. The proprietary software application offers consumers a simple, streamlined process to identify, dispute, and correct inaccuracies within their credit reports.

The Company paid $12.2 million in initial cash consideration and could make up to two additional earnout payments, each ranging from zero to $4.375 million, based on certain defined operating metrics during the earnout periods July 1, 2018 through June 30, 2019 and July 1, 2019 through June 30, 2020. These additional payments, to the extent earned, will be payable in cash. The Company has estimated a preliminary purchase price of $18.0 million, comprised of the upfront cash payment of $12.2 million and $5.8 million for the estimated fair value of the earnout payments, which is included in non-current contingent consideration in the accompanying balance sheet.

The estimated fair value of the contingent consideration payments is determined using an option pricing model. The estimated value of the contingent consideration is based upon available information and certain assumptions, known at the time of this report, which management believes are reasonable. Any differences in the actual contingent consideration payments after the final determination of purchase price will be recorded in operating income (expense) in the consolidated statements of operations and comprehensive income.

The acquisition has been accounted for as a business combination. The preliminary allocation of purchase price to the assets acquired and liabilities assumed is as follows (in thousands):

	Preliminary Fair Value
Net working capital	$ 305
Fixed assets	106
Intangible assets	8,700
Goodwill	11,535
Net deferred tax liabilities	(2,659)
Total preliminary purchase price	$ 17,987

The Company primarily used the income approach for the valuation as appropriate, and used valuation inputs in these models and analyses that were based on market participant assumptions. Market participants are buyers and sellers unrelated to the Company and fair value is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date.

The acquired intangible assets are definite-lived assets consisting primarily of developed technology, customer relationships and trademarks and tradenames. The estimated fair values of the developed technology were determined using excess earnings analysis, the customer relationships were determined using cost savings analysis and the trademarks and tradenames were determined using relief from royalty analysis. The fair value of the intangible assets with definite lives are as follows (dollars in thousands):

	Preliminary Fair Value	Weighted Average Amortization Life
Technology	$ 6,000	7 years
Customer lists	1,700	1 year
Trademarks and tradenames	1,000	4 years
Total intangible assets	$ 8,700	5.5 years

As of June 30, 2018, the Company has not completed its determination of the final purchase price or the final allocation of the purchase price to the assets and liabilities of the acquisition. The purchase price and final allocation of purchase price is expected to be finalized in the third quarter of 2018. Any adjustment to the preliminary purchase price or the assets and liabilities assumed with the acquisition will adjust goodwill.

The Company recorded preliminary goodwill of $11.5 million, which represents the excess of the purchase price over the estimated fair value of tangible and intangible assets acquired, net of the liabilities assumed. The goodwill is primarily attributable to Ovation as a going concern, which represents the ability of the Company to earn a higher return on the collection of assets and business of Ovation than if those assets and business were to be acquired and managed separately. The benefit of access to the workforce is an additional element of goodwill. The goodwill is recorded in the Company’s one reportable segment. For income tax purposes, the acquisition was an equity purchase and the goodwill will not be tax deductible.

Subsequent to the acquisition date, the Company’s consolidated results of operations include the results of the acquired Ovation business. In both of the second quarter and first six months of 2018, revenue of $0.5 million and immaterial net loss from continuing operations have been included in the Company’s consolidated results of operations.

Acquisition-related costs were $0.3 million in both of the second quarter and first six months of 2018, and are included in general and administrative expense on the consolidated statement of operations and comprehensive income.

Changes in Contingent Consideration

CompareCards

On November 16, 2016, the Company acquired all of the membership interests of Iron Horse Holdings, LLC, which does business under the name CompareCards ("CompareCards"). CompareCards is an online marketing platform for credit cards, which the Company is utilizing to grow its existing credit card business. The acquisition has been accounted for as a business combination. During 2017, the Company finalized the determination of the purchase price allocation with respect to the assets acquired and liabilities assumed.

The Company paid $80.7 million in initial cash consideration and agreed to make two earnout payments, each up to $22.5 million, based on the amount of earnings before interest, taxes, depreciation and amortization CompareCards generates during the periods of January 1, 2017 through December 31, 2017 and January 1, 2018 through December 31, 2018, or up to $45.0 million in aggregate payments. The purchase price for the acquisition is $103.8 million comprised of an upfront cash payment of $80.7 million on November 16, 2016 and $23.1 million for the estimated fair value of the earnout payments at the time of closing the acquisition. In the first quarter of 2018, the Company paid $22.5 million related to the earnout payment for the period of January 1, 2017 through December 31, 2017, which is included within cash flows from financing activities on the consolidated statement of cash flows. In the second quarter of 2018, the Company paid $22.5 million related to the earnout payment for the period of January 1, 2018 through December 31, 2018, of which $0.6 million is included within cash flows from financing activities and

$21.9 million is included within cash flows from operating activities on the consolidated statement of cash flows. During the second quarter and first six months of 2018, the Company recorded $0.2 million and $0.7 million, respectively, of contingent consideration expense within operating income in the consolidated statement of operations and comprehensive income due to the change in estimated fair value of the earnout payments.

DepositAccounts

On June 14, 2017, the Company acquired substantially all of the assets of Deposits Online, LLC, which does business under the name DepositAccounts.com (“DepositAccounts”). DepositAccounts is a leading consumer-facing media property in the depository industry and is one of the most comprehensive sources of depository deals and analysis on the Internet, covering all major deposit product categories through editorial content, programmatic rate tables and user-generated content. The acquisition has been accounted for as a business combination. During 2017, the Company finalized the determination of the purchase price allocation with respect to the assets acquired and liabilities assumed. The Company paid $24.0 million of initial cash consideration and could make additional contingent consideration payments of up to $9.0 million. The potential contingent consideration payments are comprised of (i) up to seven payments of $1.0 million each based on specified increases in Federal Funds interest rates during the period commencing on the closing date and ending on June 30, 2020 and (ii) a one-time performance payment of up to $2.0 million based on the net revenue of deposit products during the period of January 1, 2018 through December 31, 2018. These additional payments, to the extent earned, will be payable in cash. The purchase price for the acquisition is $29.0 million, comprised of the upfront cash payment of $24.0 million and $5.0 million for the estimated fair value of the contingent consideration at the time of closing the acquisition.

In the third quarter of 2017, the Company made a payment of $1.0 million associated with a specified increase in the Federal Funds rate in June 2017. In each of the first and second quarters of 2018, the Company paid $1.0 million associated with specified increases in the Federal Funds rate in December 2017 and March 2018, respectively, which are included within cash flows from financing activities on the consolidated statement of cash flows. As of June 30, 2018, the estimated fair value of the contingent consideration totaled $5.3 million, of which $4.4 million is included in current contingent consideration and $0.9 million is included in non-current contingent consideration in the accompanying consolidated balance sheet. The estimated fair value of the portion of the contingent consideration payments based on increases in interest rates is determined using a scenario approach based on the interest rate forecasts of Federal Open Market Committee participants. The estimated fair value of the portion of the contingent consideration payments potentially earned based on net revenue is determined using an option pricing model. The estimated value of the contingent consideration is based upon available information and certain assumptions, known at the time of this report, which management believes are reasonable. Any differences in the actual contingent consideration payments will be recorded in operating income in the consolidated statements of operations and comprehensive income. During the second quarter and first six months of 2018, the Company recorded $0.4 million and $1.3 million, respectively, of contingent consideration expense in the consolidated statement of operations and comprehensive income due to the change in estimated fair value of the contingent consideration.

In July 2018, the Company paid $1.0 million associated with a specified increase in the Federal Funds rate in June 2018.

SnapCap

On September 19, 2017, the Company acquired certain assets of Snap Capital LLC, which does business under the name SnapCap (“SnapCap”). SnapCap, a tech-enabled online platform, connects business owners with lenders offering small business loans, lines of credit and merchant cash advance products through a concierge-based sales approach. The acquisition has been accounted for as a business combination. During 2017, the Company finalized the determination of the purchase price allocation with respect to the assets acquired and liabilities assumed.

The Company paid $11.9 million of initial cash consideration and could make up to three additional contingent consideration payments, each ranging from zero to $3.0 million, based on certain defined operating results during the periods of October 1, 2017 through September 30, 2018, October 1, 2018 through September 30, 2019 and October 1, 2019 through March 31, 2020. These additional payments, to the extent earned, will be payable in cash. The purchase price for the acquisition is $18.2 million, comprised of the upfront cash payment of $11.9 million and $6.3 million for the estimated fair value of the contingent consideration.

As of June 30, 2018, the estimated fair value of the contingent consideration totaled $4.1 million, of which $2.9 million is included in current contingent consideration and $1.2 million is included in non-current contingent consideration in the accompanying consolidated balance sheet. The estimated fair value of the contingent consideration payments is determined using an option pricing model. The estimated value of the contingent consideration is based upon available information and certain assumptions, known at the time of this report, which management believes are reasonable. Any differences in the actual contingent consideration payments will be recorded in operating income in the consolidated statements of operations and comprehensive income. During the second quarter and first six months of 2018, the Company recorded gains of $0.8 million and $2.9 million,

Table of Contents

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

respectively, in the consolidated statement of operations and comprehensive income due to the change in estimated fair value of the contingent consideration.

Pro forma Financial Results

The unaudited pro forma financial results for the second quarters and first six months of 2017 and 2018 combine the consolidated results of the Company and DepositAccounts, SnapCap, Ovation and Camino Del Avion (Delaware), LLC (“MagnifyMoney”) giving effect to the acquisitions as if the DepositAccounts, MagnifyMoney and SnapCap acquisitions had been completed on January 1, 2016 and as if the Ovation acquisition had been completed on January 1, 2017. This unaudited pro forma financial information is presented for informational purposes only and is not indicative of future operations or results had the acquisitions been completed as of January 1, 2016 or 2017, or any other date.

The unaudited pro forma financial results include adjustments for additional amortization expense based on the fair value of the intangible assets with definite lives and their estimated useful lives. The provision for income taxes from continuing operations has also been adjusted to reflect taxes on the historical results of operations of DepositAccounts and SnapCap. DepositAccounts and SnapCap did not pay taxes at the entity level as these entities were limited liability companies whose members elected for them to be taxed as a partnership.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Pro forma revenue	$185,820	$158,737	$369,201	$296,935
Pro forma net income from continuing operations	$45,188	$7,758	$80,956	$14,966

The unaudited pro forma net income from continuing operations in the second quarter and first six months of 2018 includes the aggregate after tax contingent consideration gain associated with the CompareCards, DepositAccounts and SnapCap earnouts of $0.1 million and $0.7 million, respectively. The unaudited pro forma net income from continuing operations in the second quarter and first six months of 2017 includes the after tax contingent consideration expense associated with the CompareCards earnouts of $5.6 million and $10.9 million, respectively.

The unaudited pro forma net income from continuing operations for the first six months of 2017 has been adjusted to include acquisition-related costs of $0.3 million incurred by the Company that are directly attributable to the Ovation acquisition, which will not have an ongoing impact. Accordingly, these acquisition-related costs have been eliminated from the unaudited pro forma net income from continuing operations for the second quarter and first six months of 2018. Acquisition-related costs incurred by the Company, DepositAccounts and MagnifyMoney that are directly attributable to the DepositAccounts and MagnifyMoney acquisitions, and which will not have an on-going impact, have been eliminated from the unaudited pro forma net income from continuing operations for the second quarter and first six months of 2017.

NOTE 7—ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	June 30, 2018	December 31, 2017
Accrued litigation liabilities	$32	$ 346
Accrued advertising expense	36,588	40,727
Accrued compensation and benefits	8,938	7,679
Accrued professional fees	774	2,072
Customer deposits and escrows	5,546	5,564
Contribution to LendingTree Foundation	10,000	10,000

Other	8,843	10,795
Total accrued expenses and other current liabilities	$70,721	$ 77,183

17

Table of Contents

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

NOTE 8—SHAREHOLDERS' EQUITY

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Weighted average basic common shares	12,416	11,965	12,254	11,896
Effect of stock options	1,176	1,557	1,363	1,564
Effect of dilutive share awards	135	82	177	92
Effect of Convertible Senior Notes and warrants	420	—	733	—
Weighted average diluted common shares	14,147	13,604	14,527	13,552

For each of the three and six months ended June 30, 2018, the weighted average shares that were anti-dilutive, and therefore excluded from the calculation of diluted income per share, included options to purchase 0.4 million shares of common stock.

The 0.625% Convertible Senior Notes due June 1, 2022 and the warrants issued by the Company in the second quarter of 2017 could be converted into the Company’s common stock in the future, subject to certain contingencies. See Note 11—Debt for additional information. Shares of the Company’s common stock associated with these instruments were excluded from the calculation of diluted income per share for the three and six months ended June 30, 2017, as they were anti-dilutive since the conversion price of the Convertible Senior Notes and the strike price of the warrants were greater than the average market price of the Company’s common stock during the second quarter of 2017. Other than the shares associated with the 0.625% Convertible Senior Notes and the warrants, no shares related to potentially dilutive securities were excluded from the calculation of diluted income per share for the three and six months ended June 30, 2017.

Common Stock Repurchases

In each of January 2010, May 2014, January 2016, February 2016 and February 2018, the board of directors authorized and the Company announced the repurchase of up to $10.0 million, $10.0 million, $50.0 million, $40.0 million and $100.0 million, respectively, of LendingTree's common stock. During the six months ended June 30, 2018, the Company purchased 156,731 shares of its common stock pursuant to this stock repurchase program. At June 30, 2018, approximately $81.7 million of the previous authorizations to repurchase common stock remain available for the Company to purchase its common stock.

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of revenue	$79	$45	$137	$88
Selling and marketing expense	1,433	692	2,934	1,177
General and administrative expense	8,490	1,601	17,229	2,820
Product development	1,176	562	1,987	1,045
Total non-cash compensation	$11,178	$2,900	$22,287	$5,130

Table of Contents

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

Stock Options

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

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value[a]
		(per option)	(in years)	(in thousands)
Options outstanding at January 1, 2018	1,863,739	$ 30.70		
Granted [b]	52,148	328.73		
Exercised	(723,510)	17.84		
Forfeited	(2,682)	267.28		
Expired	—	—		
Options outstanding at June 30, 2018	1,189,695	51.05	4.66	$ 200,359
Options exercisable at June 30, 2018	1,010,061	$ 20.03	3.87	$ 195,761

(a) The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's closing stock price of $213.80 on the last trading day of the quarter ended June 30, 2018 and the exercise price, multiplied by the number of shares covered by in-the-money options) that would have been received by the option holder had the option holder exercised these options on June 30, 2018. The intrinsic value changes based on the market value of the Company's common stock.

(b) During the six months ended June 30, 2018, the Company granted stock options to certain employees and members of the board of directors with a weighted average grant date fair value per share of $167.11, calculated using the Black-Scholes option pricing model, which vesting periods include (a) immediate vesting on grant date (b) one year from grant date (c) two years from the grant date, (d) three years from the grant date and (e) four years 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 [1]	5.00 - 6.34 years
Expected dividend [2]	—
Expected volatility [3]	50% - 53%
Risk-free interest rate [4]	2.33% - 2.90%

(1) The expected term of stock options granted was calculated using the "Simplified Method," which utilizes the 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 2018, 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.

Table of Contents

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

Stock Options with Performance Conditions

A summary of the changes in outstanding stock options with performance conditions is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value[(a)]
		(per option)	(in years)	(in thousands)
Options outstanding at January 1, 2018	37,877	$ 308.90		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Options outstanding at June 30, 2018	37,877	$ 308.90	9.45	$ —
Options exercisable at June 30, 2018	—	$ —	0	$ —

(a) The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's closing stock price of $213.80 on the last trading day of the quarter ended June 30, 2018 and the exercise price, multiplied by the number of shares covered by in-the-money options) that would have been received by the option holder had the option holder exercised these options on June 30, 2018. The intrinsic value changes based on the market value of the Company's common stock.

Restricted Stock Units

A summary of the changes in outstanding nonvested restricted stock units ("RSUs"), exclusive of RSUs granted to the Chairman and Chief Executive Officer in 2018 described below, is as follows:

	RSUs	
	Number of Units	Weighted Average Grant Date Fair Value (per unit)
Nonvested at January 1, 2018	152,829	$ 121.68
Granted	54,538	336.59
Vested	(57,736)	94.67
Forfeited	(4,734)	187.56
Nonvested at June 30, 2018	144,897	$ 211.18

Restricted Stock Units with Performance Conditions

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

	RSUs with Performance Conditions	
	Number of Units	Weighted Average Grant Date Fair Value

		(per unit)
Nonvested at January 1, 2018	111,205	$ 160.34
Granted	—	—
Vested	(12,226)	106.18
Forfeited	(2,652)	113.22
Nonvested at June 30, 2018	96,327	$ 168.52

Table of Contents

Chairman and Chief Executive Officer Grants

2017 Grants

On July 25, 2017, the Company’s Compensation Committee approved new compensation arrangements for its Chairman and Chief Executive Officer. The new compensation arrangements include the issuance of performance based equity compensation grants with a modeled total grant date value of $87.5 million of which 25% (119,015 shares) would be in the form of time-vested restricted stock awards with a performance condition and 75% (a maximum of 769,376 shares) would be in the form of performance-based nonqualified stock options.

The performance-based nonqualified stock options have a target number of shares that vest upon achieving targeted total shareholder return performance of 110% stock price appreciation and a maximum number of shares for achieving superior performance up to 167% of the target number of shares. No shares will vest unless 70% of the targeted performance is achieved. Time-based service vesting conditions would also have to be satisfied in order for performance-vested shares to become fully vested and no longer subject to forfeiture. On July 26, 2017, an initial grant of performance-based nonqualified stock options with a target number of shares of 402,694 and a maximum number of shares of 672,499 were issued with an exercise price of $183.80, the closing stock price on July 26, 2017. The performance measurement period ends on September 30, 2022. The fair value of the performance-based stock options will be recognized on a straight-line basis through the vest date of September 30, 2022, whether or not any of the total shareholder return targets are met.

The Company's Fifth Amended and Restated 2008 Stock and Annual Incentive Plan (the "2008 Plan") imposes a per employee upper annual grant limit of 672,500 shares. As a result, the remaining 58,010 target performance-based nonqualified stock options and potential performance-based restricted stock awards were awarded on January 2, 2018. The form of the awards consisted of 31,336 performance-based nonqualified stock options with a per share exercise price of $340.25, and 26,674 performance-based restricted stock awards, substituting for an equal number of the performance-based options, to compensate for the increase in the exercise price of the performance-based option granted on July 26, 2017. These performance-based nonqualified stock options and performance-based restricted stock awards were issued with respective total grant date fair values of $9.5 million and $1.9 million.

As of June 30, 2018, performance-based nonqualified stock options of 312,008 and performance-based restricted stock awards of 19,175 had been earned, which have a vest date of September 30, 2022.

On January 2, 2018, the 119,015 time-vested restricted stock awards with a performance condition were granted. The terms of these awards were fixed in the approved new compensation agreements in July 2017 with a total grant date fair value of $21.9 million. The performance condition was tied to the Company's operating results during the first six months of 2018, and has been met. During the six months ended June 30, 2018, 35,703 of these awards vested.

2018 Grants

On February 16, 2018, the Company’s Compensation Committee approved the issuance of performance based equity compensation grants to its Chairman and Chief Executive Officer with a modeled total grant date value of $7.5 million, of which 50% (9,896 shares) would be in the form of time-vested restricted stock units and 50% (a maximum of 21,982 shares) would be in the form of performance-based nonqualified stock options. On February 16, 2018, the 9,896 time-vested restricted stock units were granted with a grant date fair value of $378.95.

The performance-based nonqualified stock options have a target number of shares that vest upon achieving targeted total shareholder return performance of 81% stock price appreciation and a maximum number of shares for achieving superior performance up to 167% of the target number of shares. No shares will vest unless 41% of the targeted performance is achieved. Time-based service vesting conditions would also have to be satisfied in order for performance-vested shares to become fully vested and no longer subject to forfeiture. On February 16, 2018, the performance-based nonqualified stock options with a target number of shares of 13,163 and a maximum number of shares of 21,982 were issued with an exercise price of $378.95, the closing stock price on February 16, 2018. The performance measurement period ends on March 31, 2022. The fair value of the performance-based stock options will be recognized on a straight-line basis through the vest date of March 31, 2022, whether or not any of the total shareholder return targets are met. As of June 30, 2018, the performance targets associated with the performance-based nonqualified stock options had not been met.

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

In the three and six months ended June 30, 2018, the Company recorded $5.4 million and $10.7 million, respectively, in stock-based compensation expense related to the 2017 and 2018 grants to its Chairman and Chief Executive Officer in the consolidated statement of operations and comprehensive income.

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

	Number of Options with Market Conditions	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value[(a)]
		(per option)	(in years)	(in thousands)
Options outstanding at January 1, 2018	402,694	$ 183.80		
Granted [(b)]	44,499	351.70		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Options outstanding at June 30, 2018	447,193	200.51	9.12	$ 12,081
Options exercisable at June 30, 2018	—	$ —	0	$ —

(a) The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's closing stock price of $213.80 on the last trading day of the quarter ended June 30, 2018 and the exercise price, multiplied by the number of shares covered by in-the-money options) that would have been received by the option holder had the option holder exercised these options on June 30, 2018. The intrinsic value changes based on the market value of the Company's common stock.

(b) During the six months ended June 30, 2018, the Company granted stock options with a weighted average grant date fair value per share of $296.80, calculated using the Monte Carlo simulation model, which have vesting dates of March 31, 2022 and September 30, 2022.

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 Monte Carlo simulation model, which requires the use of various key assumptions. The weighted average assumptions used are as follows:

Expected term [(1)]	7.00 - 7.15 years
Expected dividend [(2)]	—
Expected volatility [(3)]	50%
Risk-free interest rate [(4)]	2.38% - 2.81%

(1) The expected term of stock options with a market condition granted was calculated using the midpoint between the weighted average time of vesting and the end of the contractual term.

(2) For all stock options with a market condition granted in 2018, 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.

Table of Contents

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

NOTE 10—INCOME TAXES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except percentages)			
Income tax benefit	$29,721	$104	$53,182	$1,183
Effective tax rate	-196.5 %	-1.3 %	-193.2 %	-8.1 %

For the three and six months ended June 30, 2018, the effective tax rate varied from the federal statutory rate of 21% primarily due to a tax benefit of $33.7 million and $60.9 million, respectively, recognized for excess tax benefits due to employee exercises of stock options and vesting of restricted stock in accordance with ASU 2016-09 and the effect of state taxes.

For the three and six months ended June 30, 2017, the effective tax rate varied from the federal statutory rate of 35% primarily due to a tax benefit of $3.8 million and $7.6 million, respectively, recognized for excess tax benefits due to employee exercises of stock options and vesting of restricted stock in accordance with ASU 2016-09.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Income tax expense - excluding excess tax benefit on stock compensation	$(3,946)	$(3,736)	$(7,688)	$(6,420)
Excess tax benefit on stock compensation	33,667	3,840	60,870	7,603
Income tax benefit	$29,721	$104	$53,182	$1,183

NOTE 11—DEBT

Convertible Senior Notes

On May 31, 2017, the Company issued $300.0 million aggregate principal amount of its 0.625% Convertible Senior Notes due June 1, 2022 (the "Notes") in a private placement. The Notes bear interest at a rate of 0.625% per year, payable semi-annually on June 1 and December 1 of each year, beginning on December 1, 2017. The Notes will mature on June 1, 2022, unless earlier repurchased or converted.

The initial conversion rate of the Notes is 4.8163 shares of Common Stock per $1,000 principal amount of Notes (which is equivalent to an initial conversion price of approximately $207.63 per share). The conversion rate will be subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest. In addition, upon the occurrence of a fundamental change prior to the maturity of the Notes, the Company will, in certain circumstances, increase the conversion rate by a specified number of additional shares for a holder that elects to convert the Notes in connection with such fundamental change. Upon conversion, the Notes will settle for cash, shares of the Company's stock, or a combination thereof, at the Company's option. It is the intent of the Company to settle the principal amount of the Notes in cash and any conversion premium in shares of its common stock.

The Notes are the Company's senior unsecured obligations and will rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of the Company's unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company's secured indebtedness, including borrowings under the senior secured Revolving Credit Facility, described below, to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of the Company's subsidiaries.

Prior to the close of business on the business day immediately preceding February 1, 2022, the Notes will be convertible at the option of the holders thereof only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on September 30, 2017 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on, and including the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

- during the five business day period after any five consecutive trading day period in which, for each trading day of that period, the trading price (as defined in the Notes) per $1,000 principal amount of Notes for such trading day was less than 98% of the product of the last reported sale price of the Common Stock and the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events including but not limited to a fundamental change.

Holders of the Notes became entitled to convert the Notes on January 1, 2018, based on the last reported sales price of the Company's common stock, for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on December 31, 2017, being greater than or equal to 130% of the conversion price of the Notes on each applicable trading day. Holders of the Notes continued to have such right until June 30, 2018, based on the last reported sales price of the Company's common stock, for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on March 31, 2018, being greater than or equal to 130% of the conversion price of the Notes on each applicable trading day. Holders of the Notes are not entitled to convert the Notes during the calendar quarter ended September 30, 2018 as the last reported sales price of the Company's common stock, for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on June 30, 2018, was not greater than or equal to 130% of the conversion price of the Notes on each applicable trading day.

On or after February 1, 2022, until the close of business on the second scheduled trading day immediately preceding the maturity date of the Notes, holders of the Notes may convert all or a portion of their Notes regardless of the foregoing conditions.

The Company may not redeem the Notes prior to the maturity date and no sinking fund is provided for the Notes.

Upon the occurrence of a fundamental change prior to the maturity date of the Notes, holders of the Notes may require the Company to repurchase all or a portion of the Notes for cash at a price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

If the market price per share of the Common Stock, as measured under the terms of the Notes, exceeds the conversion price of the Notes, the Notes could have a dilutive effect, unless the Company elects, subject to certain conditions, to settle the principal amount of the Notes and any conversion premium in cash.

The initial measurement of convertible debt instruments that may be settled in cash are separated into a debt and equity component whereby the debt component is based on the fair value of a similar instrument that does not contain an equity conversion option. The separate components of debt and equity of the Company’s Notes were determined using an interest rate of 5.36%, which reflects the nonconvertible debt borrowing rate of the Company at the date of issuance. As a result, the initial components of debt and equity were $238.4 million and $61.6 million, respectively. Financing costs related to the issuance of the Notes were approximately $9.3 million of which $7.4 million were allocated to the liability component and are being amortized to interest expense over the term of the debt and $1.9 million were allocated to the equity component.

In the first six months of 2018, the Company recorded interest expense on the Notes of $7.2 million which consisted of $0.9 million associated with the 0.625% coupon rate, $5.6 million associated with the accretion of the debt discount, and $0.7 million associated with the amortization of the debt issuance costs. In the first six months of 2017, the Company recorded interest expense on the Notes of $1.2 million which consisted of $0.2 million associated with the 0.625% coupon rate, $0.9 million associated with the accretion of the debt discount, and $0.1 million associated with the amortization of the debt issuance costs. The debt discount is being amortized over the term of the debt.

As of June 30, 2018, the fair value of the Notes is estimated to be approximately $361.5 million using the Level 1 observable input of the last quoted market price on June 29, 2018.

24

Table of Contents

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

A summary of the gross carrying amount, unamortized debt cost, debt issuance costs and net carrying value of the liability component of the Notes are as follows (in thousands):

	June 30, 2018	December 31, 2017
Gross carrying amount	$300,000	$ 300,000
Unamortized debt discount	49,579	55,202
Debt issuance costs	5,941	6,599
Net carrying amount	$244,480	$ 238,199

Convertible Note Hedge and Warrant Transactions

On May 31, 2017, in connection with the issuance of the Notes, the Company entered into Convertible Note Hedge (the “Hedge”) and Warrant transactions with respect to the Company’s common stock. The Company used approximately $18.1 million of the net proceeds from the Notes to pay for the cost of the Hedge, after such cost was partially offset by the proceeds from the Warrant transactions.

On May 31, 2017, the Company paid $61.5 million to the counterparties for the Hedge transactions. The Hedge transactions cover approximately 1.4 million shares of the Company’s common stock, the same number of shares initially underlying the Notes, and are exercisable upon any conversion of the Notes. The Hedge Transactions are expected generally to reduce the potential dilution to the Common Stock upon conversion of the Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted Notes, as the case may be, in the event that the market price per share of Common Stock, as measured under the terms of the Hedge transactions, is greater than the strike price of the Hedge transactions, which initially corresponds to the initial conversion price of the Notes, or approximately $207.63 per share of Common Stock. The Hedge transactions will expire upon the maturity of the Notes.

On May 31, 2017, the Company sold to the counterparties, warrants (the "Warrants") to acquire 1.4 million shares of Common Stock at an initial strike price of $266.39 per share, which represents a premium of 70% over the reported sale price of the Common Stock of $156.70 on May 24, 2017. On May 31, 2017, the Company received aggregate proceeds of approximately $43.4 million from the sale of the Warrants.

If the market price per share of the Common Stock, as measured under the terms of the Warrants, exceeds the strike price of the Warrants, the Warrants could have a dilutive effect, unless the Company elects, subject to certain conditions, to settle the Warrants in cash.

The Hedge and Warrant transactions are indexed to, and potentially settled in, the Company's common stock and the net cost of $18.1 million has been recorded as a reduction to additional paid-in capital in the consolidated statement of shareholders’ equity.

Senior Secured Revolving Credit Facility

On November 21, 2017, the Company's wholly-owned subsidiary, LendingTree, LLC, entered into an amended and restated $250.0 million five-year senior secured revolving credit facility which matures on November 21, 2022 (the “Revolving Credit Facility”). The Revolving Credit Facility replaced the Company's previous $125.0 million revolving credit facility. Borrowings under 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 June 30, 2018, 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 by an additional $100.0 million, or a greater amount provided that a total consolidated senior secured debt to EBITDA ratio does not exceed 2.50 to 1.00.

25

Table of Contents

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 month plus 1.0% and (ii) an applicable percentage of 0.25% to 1.0% based on a total consolidated debt to 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 1.25% to 2.0% based on a total consolidated debt to 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 a restrictive financial covenant, which initially limits the total consolidated debt to EBITDA ratio to 4.5, with step downs to 4.0 over time, except that this may increase by 0.5 for the four fiscal quarters following a material acquisition. 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 June 30, 2018.

The Revolving Credit Facility requires LendingTree, LLC to pledge as collateral, subject to certain customary exclusions, substantially all of its assets, including 100% of its equity in all of its domestic subsidiaries and 66% of the voting equity, and 100% of the non-voting equity, in all of its material foreign subsidiaries (of which there are currently none). The obligations under this facility are unconditionally guaranteed on a senior basis by LendingTree, Inc. and material domestic subsidiaries of LendingTree, LLC, which guaranties are secured by a pledge as collateral, subject to certain customary exclusions, of 100% of each such guarantor's assets, including 100% of each such guarantor’s equity in all of its domestic subsidiaries and 66% of the voting equity, and 100% of the non-voting equity, in all of its material foreign subsidiaries (of which there are currently none).

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 0.45% per annum based on a total consolidated debt to 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 1.25% to 2.0% based on a total consolidated debt to EBITDA ratio. The letter of credit fronting fee is 0.125% per annum on the face amount of each letter of credit.

In addition to the remaining unamortized debt issuance costs associated with the original revolving credit facility, debt issuance costs of $1.4 million related to the Revolving Credit Facility are being amortized to interest expense over the life of the Revolving Credit Facility of five years, and are included in prepaid and other current assets and other non-current assets in the Company's consolidated balance sheet.

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 June 30, 2018, the Company had a litigation settlement accrual of $8.0 million in discontinued operations. As of December 31, 2017, the Company had litigation settlement accruals of $0.3 million and $4.0 million in continuing operations and discontinued operations, respectively. 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
Litigation Related to Discontinued Operations
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. The parties filed their respective motions for summary judgment in April 2018; oral arguments with respect to the motions for summary judgment were heard in June 2018. Trial is currently expected to begin in October 2018. Plaintiff is seeking damages of $61.0 million in this action; HLC intends to vigorously defend this action. An estimated liability of $7.0 million for this matter is included in the accompanying consolidated balance sheet as of June 30, 2018.
Lehman Brothers Holdings, Inc.
Lehman Brothers Holdings Inc. v. 1st Advantage Mortgage, LLC et al., Case No. 08-13555 (SCC), Adversary Proceeding No. 16-01342 (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. On March 31, 2017, HLC filed an omnibus motion to dismiss with other defendants. 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 June 30, 2018.

NOTE 13—FAIR VALUE MEASUREMENTS

Other than the 0.625% Convertible Senior Notes and the Warrants, the carrying amounts of the Company's financial instruments are equal to fair value at June 30, 2018. See Note 11—Debt for additional information on the 0.625% Convertible Senior Notes and the Warrants.

Table of Contents

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

Contingent consideration payments related to acquisitions are measured at fair value each reporting period using Level 3 unobservable inputs. The changes in the fair value of the Company's Level 3 liabilities during the three and six months ended June 30, 2018 and 2017 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Contingent consideration, beginning of period	$33,108	$31,846	$57,349	$23,100
Transfers into Level 3				
Transfers out of Level 3				
Total net (gains) losses included in earnings (realized and unrealized)	(167)	9,393	(908)	18,139
Purchases, sales and settlements:				
Additions	5,800	4,988	5,800	4,988
Payments	(23,500)		(47,000)	
Contingent consideration, end of period	$15,241	$46,227	$15,241	$46,227

The contingent consideration liability at June 30, 2018 is the estimated fair value of the earnout payments of the DepositAccounts, SnapCap and Ovation acquisitions. The Company will make payments ranging from $1.0 million to $6.0 million based on the achievement of defined milestone and performance targets for DepositAccounts, payments ranging from zero to $9.0 million based on the achievement of certain defined earnings targets for SnapCap, and payments ranging from zero to $8.75 million based on the achievement of certain defined operating metrics for Ovation. See Note 6—Business Acquisition for additional information on the contingent consideration for each of these respective acquisitions.

The significant unobservable inputs used to calculate the fair value of the contingent consideration are estimated future cash flows for the acquisitions, estimated customer growth rates, estimated date and likelihood of an increase in interest rates and the discount rate. Actual results will differ from the projected results and could have a significant impact on the estimated fair value of the contingent considerations. Additionally, as the liability is stated at present value, the passage of time alone will increase the estimated fair value of the liability each reporting period. Any changes in fair value will be recorded in operating income in the consolidated statements of operations and comprehensive income.

NOTE 14—SEGMENT INFORMATION

The Company has one reportable segment.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Mortgage products	$66,948	$71,515	$140,410	$134,453
Non-mortgage products	117,153	81,258	224,726	150,835
Total revenue	$184,101	$152,773	$365,136	