
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2014

Or

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

For the transition period from _____ to _____
Commission File No. 001-34063



TREE.COM, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-2414818
(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 No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of August 5, 2014, there were 11,308,431 shares of the Registrant's common stock, par value \$.01 per share, outstanding, excluding treasury shares.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

TREE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	<i>(in thousands, except per share amounts)</i>			
Revenue	\$ 42,144	\$ 37,406	\$ 82,180	\$ 65,486
Costs and expenses:				
Cost of revenue <i>(exclusive of depreciation shown separately below)</i>	1,895	1,950	3,560	3,306
Selling and marketing expense	28,964	26,386	56,413	43,641
General and administrative expense	5,478	5,651	11,611	12,207
Product development	1,826	1,492	3,758	2,697
Depreciation	946	872	1,701	1,757
Amortization of intangibles	27	43	55	86
Restructuring and severance	23	148	225	146
Litigation settlements and contingencies	385	2,909	8,092	3,937
Total costs and expenses	39,544	39,451	85,415	67,777
Operating income (loss)	2,600	(2,045)	(3,235)	(2,291)
Other expense:				
Interest expense	—	(7)	—	(14)
Income (loss) before income taxes	2,600	(2,052)	(3,235)	(2,305)
Income tax benefit (expense)	83	19	84	(1)
Net income (loss) from continuing operations	2,683	(2,033)	(3,151)	(2,306)
Discontinued operations:				
Gain from sale of discontinued operations, net of tax	—	10,003	—	10,101
Loss from operations of discontinued operations, net of tax	(2,931)	(891)	(3,505)	(3,433)
Income (loss) from discontinued operations	(2,931)	9,112	(3,505)	6,668
Net income (loss)	\$ (248)	\$ 7,079	\$ (6,656)	\$ 4,362
Weighted average shares outstanding:				
Basic	11,214	11,133	11,178	11,050
Diluted	11,849	11,133	11,178	11,050
Income (loss) per share from continuing operations:				
Basic	\$ 0.24	\$ (0.18)	\$ (0.28)	\$ (0.21)
Diluted	\$ 0.23	\$ (0.18)	\$ (0.28)	\$ (0.21)
Income (loss) per share from discontinued operations:				
Basic	\$ (0.26)	\$ 0.82	\$ (0.31)	\$ 0.60
Diluted	\$ (0.25)	\$ 0.82	\$ (0.31)	\$ 0.60
Income (loss) per share attributable to common shareholders:				
Basic	\$ (0.02)	\$ 0.64	\$ (0.60)	\$ 0.39
Diluted	\$ (0.02)	\$ 0.64	\$ (0.60)	\$ 0.39

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

TREE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2014	December 31, 2013
	<i>(in thousands, except par value and share amounts)</i>	
ASSETS:		
Cash and cash equivalents	\$ 87,618	\$ 91,667
Restricted cash and cash equivalents	22,044	26,017
Accounts receivable (net of allowance of \$474 and \$408, respectively)	13,260	12,850
Prepaid and other current assets	1,518	1,689
Current assets of discontinued operations	715	521
Total current assets	125,155	132,744
Property and equipment (net of accumulated depreciation of \$19,709 and \$18,008, respectively)	5,602	5,344
Goodwill	3,632	3,632
Intangible assets, net	11,219	10,684
Other non-current assets	102	111
Non-current assets of discontinued operations	100	129
Total assets	\$ 145,810	\$ 152,644
LIABILITIES:		
Accounts payable, trade	\$ 5,949	\$ 4,881
Accrued expenses and other current liabilities	23,505	23,314
Current liabilities of discontinued operations (Note 12)	32,620	32,004
Total current liabilities	62,074	60,199
Other non-current liabilities	67	334
Deferred income taxes	4,849	4,849
Non-current liabilities of discontinued operations	261	254
Total liabilities	67,251	65,636
Commitments and contingencies (Note 9)		
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; 12,771,101 and 12,619,835 shares issued, respectively, and 11,342,969 and 11,250,903 shares outstanding, respectively	128	126
Additional paid-in capital	906,866	907,148
Accumulated deficit	(814,189)	(807,533)
Treasury stock 1,428,132 and 1,368,932 shares, respectively	(14,246)	(12,733)
Total shareholders' equity	78,559	87,008
Total liabilities and shareholders' equity	\$ 145,810	\$ 152,644

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

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

	Common Stock			Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	
	Total	Number of Shares	Amount			Number of Shares	Amount
	<i>(in thousands)</i>						
Balance as of December 31, 2013	\$ 87,008	12,620	\$ 126	\$ 907,148	\$ (807,533)	1,369	\$ (12,733)
Comprehensive loss:							
Net loss	(6,656)	—	—	—	(6,656)	—	—
Comprehensive loss	\$ (6,656)						
Non-cash compensation	3,076	—	—	3,076	—	—	—
Purchase of treasury stock	(1,513)	—	—	—	—	59	(1,513)
Dividends	(12)	—	—	(12)	—	—	—
Issuance of restricted stock awards	—	43	1	(1)	—	—	—
Net-share settlement of stock-based compensation, net of issuance of common stock upon restricted stock unit vesting and stock option exercise	(3,344)	108	1	(3,345)	—	—	—
Balance as of June 30, 2014	\$ 78,559	12,771	\$ 128	\$ 906,866	\$ (814,189)	1,428	\$ (14,246)

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

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

	Six Months Ended June 30,	
	2014	2013
	<i>(in thousands)</i>	
Cash flows from operating activities attributable to continuing operations:		
Net income (loss)	\$ (6,656)	\$ 4,362
Less: Loss (income) from discontinued operations	3,505	(6,668)
Net loss from continuing operations	(3,151)	(2,306)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Loss on disposal of fixed assets	52	24
Amortization of intangibles	55	86
Depreciation	1,701	1,757
Non-cash compensation expense	3,073	2,866
Deferred income taxes	(1)	—
Bad debt expense	143	73
Changes in current assets and liabilities:		
Accounts receivable	(813)	(6,871)
Prepaid and other current assets	(399)	91
Accounts payable, accrued expenses and other current liabilities	1,107	6,241
Income taxes payable	576	(570)
Other, net	(161)	(321)
Net cash provided by operating activities attributable to continuing operations	2,182	1,070
Cash flows from investing activities attributable to continuing operations:		
Capital expenditures	(2,039)	(1,217)
Acquisition of intangible assets	(530)	—
Decrease (increase) in restricted cash	3,973	(652)
Net cash provided by (used in) investing activities attributable to continuing operations	1,404	(1,869)
Cash flows from financing activities attributable to continuing operations:		
Payments related to net-share settlement of stock-based compensation, net of proceeds from exercise of stock options	(3,237)	(1,473)
Purchase of treasury stock	(1,470)	(1,452)
Dividends	(140)	284
Net cash used in financing activities attributable to continuing operations	(4,847)	(2,641)
Total cash used in continuing operations	(1,261)	(3,440)
Net cash used in operating activities attributable to discontinued operations	(2,788)	(1,467)
Net cash provided by investing activities attributable to discontinued operations	—	10,000
Total cash provided by (used in) discontinued operations	(2,788)	8,533
Net increase (decrease) in cash and cash equivalents	(4,049)	5,093
Cash and cash equivalents at beginning of period	91,667	80,190
Cash and cash equivalents at end of period	\$ 87,618	\$ 85,283

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

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

NOTE 1—ORGANIZATION

Company Overview

Tree.com, Inc. ("Tree.com" or the "Company") is the parent of LendingTree, LLC, which owns several brands and businesses that provide information, tools, advice, products and services for critical transactions in consumers' lives. The family of brands includes: LendingTree®, GetSmart®, LendingTree AutosSM, LendingTree EducationSM and LendingTree Home ProsSM. Together, these brands serve as an ally for consumers who are looking to comparison-shop for loans, education programs, home services providers and other services from multiple businesses and professionals that will compete for their business.

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

Certain amounts from the prior consolidated financial statements have been reclassified to conform to the presentation adopted in the current year.

Discontinued Operations

The businesses of RealEstate.com, REALTORS® (which represents the former Real Estate segment) and LendingTree Loans are presented as discontinued operations in the accompanying consolidated balance sheets, consolidated statements of operations 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.

LendingTree Loans

On May 12, 2011, the Company entered into an asset purchase agreement with Discover Bank ("Discover"), a wholly-owned subsidiary of Discover Financial Services, as amended on February 7, 2012, for the sale of substantially all of the operating assets of its LendingTree Loans business. The sale was completed on June 6, 2012.

The asset purchase agreement, as amended, provided for a purchase price of approximately \$55.9 million in cash for the assets, subject to certain conditions. Of this total purchase price, \$8.0 million was paid prior to the closing, \$37.9 million was paid upon the closing and the contingent amount of \$10.0 million was paid and recognized as a gain from sale of discontinued operations in the second quarter of 2013.

Discover generally did not assume liabilities of the LendingTree Loans business that arose before the closing date, except for certain liabilities directly related to assets Discover acquired. Of the purchase price paid, as of June 30, 2014, \$16.1 million is being held in escrow pending resolution of certain actual and/or contingent liabilities that remain with the Company following the sale. The escrowed amount is recorded as restricted cash as of June 30, 2014.

Separate from the asset purchase agreement, Tree.com agreed to provide certain marketing-related services to Discover in connection with its mortgage origination business for approximately seventeen months following the closing, or such earlier point as the agreed-upon services are satisfactorily completed. The services were satisfactorily completed in the second quarter of 2013. Discover remains a network lender on the Company's mortgage exchange following completion of the services.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013, respectively, have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). In the opinion of management, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited financial statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company's financial position for the periods presented. The results for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014, or any other period. The accompanying consolidated balance sheet as of December 31, 2013 was derived from audited financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2013 (the "2013 Annual Report"). These 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 2013 Annual Report.

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

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; restructuring reserves; various other allowances, reserves and accruals; and assumptions related to the determination of stock-based compensation.

Certain Risks and Concentrations

Tree.com'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, 2014, 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 increases may negatively impact future revenue from the Company's lender network.

Lenders participating on the Company's lender network 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 service, 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 May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 related to revenue recognition. This ASU was initiated as a joint project between the FASB and the International Accounting Standards Board ("IASB") to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and IFRS. This guidance will supersede the existing revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition and is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted and the ASU can be applied (i) retrospectively to each prior period presented or (ii) retrospectively with the cumulative effect of initially adopting the ASU recognized at the date of initial application. The Company is evaluating the impact this ASU will have on its consolidated financial statements.

There are no recently issued accounting pronouncements that were adopted during the quarter ended June 30, 2014.

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

NOTE 3—RESTRICTED CASH

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

	June 30, 2014	December 31, 2013
Cash in escrow for surety bonds	\$ 2,453	\$ 2,453
Cash in escrow for corporate purchasing card program	400	400
Cash in escrow for sale of LendingTree Loans ^(a)	16,105	18,117
Cash in escrow for earnout related to an acquisition ^(b)	—	1,956
Cash restricted for loan loss obligations	3,051	3,051
Other	35	40
Total restricted cash and cash equivalents	\$ 22,044	\$ 26,017

(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. During the second quarter of 2014, the Company reached and executed a settlement with one of its secondary market purchasers related to these contingent liabilities, upon which \$2.0 million of cash previously held in escrow was released to the Company. This settlement had no impact on the results of operations for the three and six months ended June 30, 2014.

(b) During the first quarter of 2014, the Company reached and executed a settlement with the disputing party on the earnout related to an acquisition, upon which \$2.0 million of cash previously held in escrow was released, of which \$1.0 million was paid out to the disputing party. This settlement had no impact on the results of operations for the three and six months ended June 30, 2014.

NOTE 4—GOODWILL AND INTANGIBLE ASSETS

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

	June 30, 2014	December 31, 2013
Goodwill	\$ 486,720	\$ 486,720
Accumulated impairment losses	(483,088)	(483,088)
Net goodwill	\$ 3,632	\$ 3,632
Intangible assets with indefinite lives	\$ 10,142	\$ 10,142
Intangible assets with definite lives, net	1,077	542
Total intangible assets, net	\$ 11,219	\$ 10,684

Goodwill and Indefinite-Lived Intangible Assets

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

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

Intangible Assets with Definite Lives

On June 30, 2014, the Company acquired certain intangible assets to be used in its home services business for \$0.6 million plus contingent consideration of \$0 to \$0.8 million. As of August 5, 2014, the Company has not completed its determination of the final purchase price or the allocation thereof to these intangible assets. Accordingly, reflected in the tables below, the Company has preliminarily recorded the \$0.6 million paid on the acquisition date to customer lists and other intangible assets.

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

	Cost	Accumulated Amortization	Net
Purchase agreements	\$ 236	\$ (236)	\$ —
Technology	25,194	(25,194)	—
Customer lists	7,222	(6,196)	1,026
Other	1,567	(1,516)	51
Balance at June 30, 2014	\$ 34,219	\$ (33,142)	\$ 1,077

	Cost	Accumulated Amortization	Net
Purchase agreements	\$ 236	\$ (212)	\$ 24
Technology	25,194	(25,194)	—
Customer lists	6,682	(6,166)	516
Other	1,517	(1,515)	2
Balance at December 31, 2013	\$ 33,629	\$ (33,087)	\$ 542

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on balances as of June 30, 2014, future amortization is estimated to be as follows (*in thousands*):

	Amortization Expense
Remainder of current year	\$ 66
Year ending December 31, 2015	101
Year ending December 31, 2016	101
Year ending December 31, 2017	92
Year ending December 31, 2018	84
Thereafter	633
Total intangible assets with definite lives, net	\$ 1,077

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

NOTE 5—ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	June 30, 2014	December 31, 2013
Accrued litigation liabilities	\$ 500	\$ 500
Accrued advertising expense	11,501	8,837
Accrued compensation and benefits	2,614	3,378
Accrued professional fees	823	1,806
Accrued restructuring costs	295	284
Customer deposits and escrows	4,424	4,279
Deferred rent	271	245
Other	3,077	3,985
Total accrued expenses and other current liabilities	\$ 23,505	\$ 23,314

NOTE 6—SHAREHOLDERS' EQUITY

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted average basic common shares	11,214	11,133	11,178	11,050
Effect of stock options	461	—	—	—
Effect of dilutive share awards	174	—	—	—
Weighted average diluted common shares	11,849	11,133	11,178	11,050

For the six months ended June 30, 2014 and the three and six months ended June 30, 2013, the Company had losses from continuing operations and, as a result, no potentially dilutive securities were included in the denominator for computing diluted loss per share, because the impact would have been anti-dilutive. Accordingly, the weighted average basic shares outstanding were used to compute loss per share amounts for these periods. For the three months ended June 30, 2013, approximately 0.6 million shares, and for the six months ended June 30, 2014 and 2013, approximately 0.7 million and 0.7 million shares, respectively, related to potentially dilutive securities were excluded from the calculation of diluted loss per share, because their inclusion would have been anti-dilutive. For the three months ended June 30, 2014, less than 0.1 million shares related to potentially dilutive securities were excluded from the calculation of diluted earnings per share, because their inclusion would have been anti-dilutive.

Common Stock Repurchases

On January 11, 2010, the board of directors authorized the repurchase of up to \$10.0 million of Tree.com's common stock. On May 7, 2014, the board of directors authorized the repurchase of up to an additional \$10.0 million of Tree.com's common stock. During the three and six months ended June 30, 2014, the Company purchased 59,200 shares of its common stock pursuant to this stock repurchase program. At June 30, 2014, approximately \$8.6 million remains authorized for share repurchase.

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

NOTE 7—STOCK-BASED COMPENSATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenue	\$ 7	\$ 3	\$ 13	\$ 5
Selling and marketing expense	226	306	459	523
General and administrative expense	928	879	1,989	1,909
Product development	260	244	576	429
Restructuring and severance	—	—	36	—
Total non-cash compensation	\$ 1,421	\$ 1,432	\$ 3,073	\$ 2,866

Stock Options

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

	Number of Options	Weighted Average Exercise Price <i>(per option)</i>	Weighted Average Remaining Contractual Term <i>(in years)</i>	Aggregate Intrinsic Value ^(a) <i>(in thousands)</i>
Options outstanding at January 1, 2014	1,038,999	\$ 8.98		
Granted ^(b)	104,910	27.95		
Exercised	(4,534)	12.12		
Forfeited	—	—		
Expired	(669)	13.46		
Options outstanding at June 30, 2014	1,138,706	10.72	4.76	\$ 21,171
Options exercisable at June 30, 2014	983,795	\$ 9.04	4.12	\$ 19,771

(a) The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's closing stock price of \$29.14 on the last trading day of the quarter ended June 30, 2014 and the exercise price, multiplied by the number of shares covered by in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2014. The intrinsic value changes based on the market value of the Company's common stock.

(b) During the first six months ended June 30, 2014, the Company granted stock options to certain executives with weighted average grant date fair values per share ranging from \$12.29 to \$17.13 that vest over a period of three years from the grant date and to non-employee members of the board of directors with a weighted average grant date fair value per share of \$13.08 that vest over a period of two 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⁾	5.75 - 6.0 years
Expected dividend ⁽²⁾	—
Expected volatility ⁽³⁾	53% - 54%
Risk-free interest rate ⁽⁴⁾	1.85% - 1.97%

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

- (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 2014, 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 for the four years preceding the grant date, supplemented with the historical volatility of its peer group for the two years preceding the Company's historical volatility. A blended rate was used because the Company became a public company in 2008 and, therefore, does not have a historical volatility equal to the expected term of these awards.
- (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.

On August 6, 2014, the Company granted 1,000,000 stock options with an exercise price of \$26.59 to certain executives, of which 25% and 75% vest over a period of 2.5 years and 3.5 years, respectively, from the grant date. The Company has not completed its determination of the grant date fair value per share of the stock options.

Restricted Stock Units and Restricted Stock

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

	RSUs		RSUs Performance Condition	
	Number of Units	Weighted Average Grant Date Fair Value <i>(per unit)</i>	Number of Units	Weighted Average Grant Date Fair Value <i>(per unit)</i>
Nonvested at January 1, 2014	599,122	\$ 14.15	—	\$ —
Granted	121,873	32.28	500	33.59
Vested	(209,507)	13.36	—	—
Forfeited	(42,952)	15.85	—	—
Nonvested at June 30, 2014	468,536	\$ 19.12	500	\$ 33.59

	Restricted Stock		Restricted Stock Market Condition	
	Number of Shares	Weighted Average Grant Date Fair Value <i>(per share)</i>	Number of Shares	Weighted Average Grant Date Fair Value <i>(per share)</i>
Nonvested at January 1, 2014	119,500	\$ 22.47	62,500	\$ 13.93
Granted	43,389	25.14	—	—
Vested	(20,833)	17.49	(62,500)	13.93
Forfeited	—	—	—	—
Nonvested at June 30, 2014	142,056	\$ 24.02	—	\$ —

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

NOTE 8—INCOME TAXES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	<i>(in thousands, except percentages)</i>			
Income tax benefit (provision)	\$ 83	\$ 19	\$ 84	\$ (1)
Effective tax rate	3.2%	0.9%	2.6%	—%

For the three and six months ended June 30, 2014, the effective tax rates varied from the statutory rate primarily due to the existence of a valuation allowance that has been provided to offset the Company's net deferred tax asset, after excluding deferred tax liabilities related to indefinite-lived intangible assets that are not going to provide a source of taxable income in the foreseeable future, and state tax refunds.

For the three and six months ended June 30, 2013, the effective income tax rates varied from the statutory rate due primarily to the impact of the valuation allowance, indefinite-lived intangible assets and state taxes.

Valuation Allowance

There have been no changes to the Company's valuation allowance assessment for the three and six months ended June 30, 2014.

NOTE 9—CONTINGENCIES**Overview**

Tree.com 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 ways that could have a material adverse impact on the business. With respect to the matters disclosed in this footnote, 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, 2014 and December 31, 2013, the Company had a litigation settlement accrual for its continuing operations of \$0.5 million. The litigation settlement accrual relates to litigation matters that were either settled or a firm offer for settlement was extended, thereby establishing an accrual amount that is both probable and reasonably estimable.

Specific Matters**Intellectual Property Litigation****Zillow**

LendingTree v. Zillow, Inc., et al. Civil Action No. 3:10-cv-439. On September 8, 2010, the Company filed an action for patent infringement in the US District Court for the Western District of North Carolina against Zillow, Inc., Nextag, Inc., Quinstreet, Inc., Quinstreet Media, Inc. and Adchemy, Inc. The complaint was amended to include Leadpoint, Inc. d/b/a Securerights on September 24, 2010. The complaint alleges that each of the defendants infringe one or both of the Company's patents-U.S. Patent No. 6,385,594, entitled "Method and Computer Network for Co-Ordinating a Loan over the Internet," and U.S. Patent No. 6,611,816, entitled "Method and Computer Network for Co-Ordinating a Loan over the Internet." The defendants in this action asserted various defenses and counterclaims against the Company, including the assertion by certain of the defendants of counterclaims alleging illegal monopolization via our maintenance of the asserted patents. Defendant NexTag asserted a defense of laches. In July 2011, the Company reached a settlement agreement with Leadpoint, Inc., pursuant to which all claims against Leadpoint, Inc. and all counterclaims against the Company by Leadpoint, Inc. were dismissed. In November 2012, the Company reached a settlement agreement with Quinstreet, Inc. and Quinstreet Media, Inc. (collectively, the "Quinstreet Parties"), pursuant to which all claims against the Quinstreet Parties and all counterclaims against the Company by the Quinstreet Parties were dismissed. After an unsuccessful attempt to reach settlement through mediation with the remaining parties, this matter went to

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

trial beginning in February 2014, and on March 12, 2014, the jury returned a verdict. The jury found that the defendants Zillow, Inc., Adchemy, Inc., and NexTag, Inc. did not infringe the two patents referenced above and determined that those patents are invalid due to an inventorship defect, and the court found that NexTag was entitled to a defense of laches. The jury found in the Company's favor on the defendants' counterclaims alleging inequitable conduct and antitrust violations. Judgment was entered on March 31, 2014. After the court entered judgment, on May 27, 2014, the Company reached a settlement agreement with defendant Adchemy, Inc., including an agreement to dismiss and withdraw all claims, counterclaims, and motions between the Company and Adchemy, Inc. As a result, a joint and voluntary dismissal was filed June 12, 2014. Certain matters remain pending with the court, including the Company's motions for a new trial and to correct the inventorship defect and restore the validity of the patents and the defendants' motions for sanctions and attorneys' fees. The Company believes it has strong grounds for appeal and filed a notice of appeal on April 22, 2014. The range of possible loss on the remaining motions for sanctions and awards of attorneys' fees is estimated to be between \$0 to \$7.3 million. The Company believes the defendants' motions for sanctions and attorneys' fees lack merit and intends to defend these motions vigorously.

Internet Patents Corp.

Internet Patents Corporation f/k/a InsWeb v. Tree.com, Inc., No. C-12-6505 (U.S. Dist. Ct., N.D. Cal.). In December 2012, the plaintiff filed a patent infringement lawsuit against the Company seeking a judgment that it had infringed a patent held by the plaintiff. Process was formally served with respect to this matter in April 2013. The plaintiff sought injunctive relief, damages, costs, expenses, pre- and post-judgment interest, punitive damages and attorneys' fees. The plaintiff alleged that the Company infringed upon U.S. Patent No. 7,707,505, entitled "Dynamic Tabs for a Graphical User Interface". On October 25, 2013, the court dismissed the suit based on the finding that the plaintiff's claims failed as a matter of law because the asserted patent is invalid for lack of patent-eligible subject matter. The plaintiff filed a notice of appeal on November 7, 2013. In December 2013, the Company's case was consolidated with three other pending appeals involving the asserted patents. The plaintiff filed its opening appellate brief in January 2014, and the Company filed a joint appellate response brief in April 2014. A hearing on the consolidated appeals is expected in August 2014. The Company believes the plaintiff's allegations lack merit and intends to defend against this action vigorously.

Money Suite

The Money Suite Company v. LendingTree, LLC, No. 1:13-ev-986 (U.S. Dist. Ct, D Del.). In June 2013, the plaintiff filed a patent infringement lawsuit against LendingTree, LLC ("LendingTree") seeking a judgment that it infringed a patent held by plaintiff. The plaintiff alleges that LendingTree infringes U.S. Patent No. 6,684,189 for "an apparatus and method using front-end network gateways and search criteria for efficient quoting at a remote location". The plaintiff seeks damages (including pre- and post-judgment interest thereon), costs and attorneys' fees. In December 2013, the court stayed this case pending review of the patent by the United States Patent and Trademark Office. The Company believes the plaintiff's allegations lack merit and intends to defend against this action vigorously.

Other Litigation

Boschma

Boschma v. Home Loan Center, Inc., No. SACV7-613 (U.S. Dist. Ct., C.D. Cal.). On May 25, 2007, the plaintiffs filed a putative class action against HLC in the U.S. District Court for the Central District of California. The plaintiffs allege that HLC sold them an option "ARM" (adjustable-rate mortgage) loan but failed to disclose in a clear and conspicuous manner, among other things, that the interest rate was not fixed, that negative amortization could occur and that the loan had a prepayment penalty. Based upon these factual allegations, the plaintiffs asserted violations of the federal Truth in Lending Act, violations of the Unfair Competition Law, breach of contract, and breach of the covenant of good faith and fair dealing. The plaintiffs purport to represent a class of all individuals who, between June 1, 2003 and May 31, 2007, obtained option ARM loans through HLC on their primary residences located in California, and seek rescission, damages, attorneys' fees and injunctive relief. The plaintiffs have not yet filed a motion for class certification, but have filed a total of eight complaints in connection with this lawsuit. Each of the first seven complaints has been dismissed by the federal and state courts. The plaintiffs filed the eighth complaint (a "Second Amended Complaint") in Orange County (California) Superior Court on March 4, 2010 alleging only the fraud and Unfair Competition Law claims. As with each of the seven previous versions of plaintiffs' complaint, the Second Amended Complaint was dismissed in April 2010. The plaintiffs appealed the dismissal and on August 10, 2011, the appellate court reversed the trial court's dismissal and directed the trial court to overrule the demurrer. The case was remanded to superior court. During 2013, the parties agreed to a \$450,000 settlement, which was approved in 2013. A nominal payment into the settlement fund was made in late 2013. The

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

Company expects administration of the settlement to be completed by the fourth quarter of 2014. A provision for the remaining \$435,000 is included in current liabilities of discontinued operations as of June 30, 2014. Subsequent to June 30, 2014, the settlement fund was fully funded. The impact of the settlement was not material.

Dijkstra

Lijkel Dijkstra v. Harry Carenbauer, Home Loan Center, Inc. et al., No. 5:11-cv-152-JPB (U.S. Dist. Ct., N.D.WV). On November 7, 2008, the plaintiffs filed a putative class action in Circuit Court of Ohio County, West Virginia against Harry Carenbauer, HLC, HLC Escrow, Inc. et al. The complaint alleges that HLC engaged in the unauthorized practice of law in West Virginia by permitting persons who were neither admitted to the practice of law in West Virginia nor under the direct supervision of a lawyer admitted to the practice of law in West Virginia to close mortgage loans. The plaintiffs assert claims for declaratory judgment, contempt, injunctive relief, conversion, unjust enrichment, breach of fiduciary duty, intentional misrepresentation or fraud, negligent misrepresentation, violation of the West Virginia Consumer Credit and Protection Act ("CCPA"), violation of the West Virginia Lender, Broker & Services Act, civil conspiracy, outrage and negligence. The claims against all defendants other than Mr. Carenbauer, HLC and HLC Escrow, Inc. have been dismissed. The case was removed to federal court in October 2011. On January 3, 2013, the court granted a conditional class certification only with respect to the declaratory judgment, contempt, unjust enrichment and CCPA claims. The conditional class includes consumers with mortgage loans in effect any time after November 8, 2007 who obtained such loans through HLC, and whose loans were closed by persons not admitted to the practice of law in West Virginia or by persons not under the direct supervision of a lawyer admitted to the practice of law in West Virginia. On February 26, 2014, the court granted and denied certain of each party's motions for summary judgment. With respect to the Class Claims, the court granted plaintiff's motions for summary judgment with respect to declaratory judgment, unjust enrichment and violation of the CCPA. The court granted HLC's motion for summary judgment with respect to contempt. In addition, the court denied HLC's motion to decertify the class. With respect to the claims applicable to the named plaintiff only (the "Individual Claims"), HLC's motions for summary judgment were granted with respect to conversion, breach of fiduciary duty, intentional misrepresentation, negligent misrepresentation and outrage. As of June 30, 2014, HLC and the plaintiff have reached a tentative settlement agreement with respect to the remaining Individual Claims.

A reserve of \$2.8 million has been established for this matter in the accompanying consolidated balance sheet as of June 30, 2014, of which some or all may be covered by insurance. Subsequent to June 30, 2014, the court awarded damages to plaintiffs in the amount of \$2.8 million. HLC believes it has strong grounds for appeal.

Massachusetts Division of Banks

On February 11, 2011, the Massachusetts Division of Banks (the "Division") delivered a Report of Examination/Inspection to LendingTree, which identified various alleged violations of Massachusetts and federal laws, including the alleged insufficient delivery by LendingTree of various disclosures to its customers. On October 14, 2011, the Division provided a proposed Consent Agreement and Order to settle the Division's allegations, which the Division had shared with other state mortgage lending regulators. Thirty-four of such state mortgage lending regulators (the "Joining Regulators") indicated that if LendingTree would enter into the Consent Agreement and Order, they would agree not to pursue any analogous allegations that they otherwise might assert. As of August 7, 2014, none of the Joining Regulators have asserted any such allegations.

The proposed Consent Agreement and Order calls for a fine to be allocated among the Division and the Joining Regulators and for LendingTree to adopt various new procedures and practices. The Company has commenced negotiations toward an acceptable Consent Agreement and Order. It does not believe its mortgage exchange business violated any federal or state mortgage lending laws; nor does it believe that any past operations of the mortgage business have resulted in a material violation of any such laws. Should the Division or any Joining Regulator bring any actions relating to the matters alleged in the February 2011 Report of Examination/Inspection, the Company intends to defend against such actions vigorously. The range of possible loss is estimated to be between \$0.5 million and \$6.5 million, and a reserve of \$0.5 million has been established for this matter in the accompanying consolidated balance sheet as of June 30, 2014.

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

NOTE 10—SEGMENT INFORMATION

The Company has one reportable segment, its lending operating segment. Its additional operating segments—auto, education and home services—are included in the "Other" category in the reconciliation of segment information below.

The expenses presented below for the lending segment and the operating segments shown in the Other category include allocations of certain corporate expenses that are identifiable and directly benefit those segments. The unallocated expenses included in the "Corporate" category are those corporate overhead expenses that are not directly attributable to an operating segment and include: finance, legal, executive technology support and human resources.

Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), a non-GAAP measure, is the primary metric by which the chief operating decision maker evaluates the performance of the Company's businesses, on which its marketing expenditures and internal budgets are based and by which management and many employees are compensated. Adjusted EBITDA is defined as operating income or loss (which excludes interest expense and taxes) adjusted to exclude amortization of intangibles and depreciation, and excludes (1) non-cash compensation expense, (2) non-cash intangible asset impairment charges, (3) gain/loss on disposal of assets, (4) restructuring and severance expenses, (5) litigation settlements and contingencies and legal fees for certain patent litigation, (6) adjustments for acquisitions or dispositions and (7) one-time items. For the periods presented in this report, there are no adjustments for one-time items, except for \$0.9 million related to a discretionary cash bonus payment to employee stock option holders during the six months ended June 30, 2013.

Assets and other balance sheet information are not used by the chief operating decision maker.

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

Summarized information by segment and reconciliations to Adjusted EBITDA and income (loss) before income taxes is as follows (*in thousands*):

	Three Months Ended June 30, 2014			
	Lending	Other	Corporate	Total
Revenue	\$ 39,049	\$ 3,095	\$ —	\$ 42,144
Costs and expenses:				
Cost of revenue (<i>exclusive of depreciation shown separately below</i>)	1,773	122	—	1,895
Selling and marketing expense	26,952	2,012	—	28,964
General and administrative expense	1,247	615	3,616	5,478
Product development	1,474	352	—	1,826
Depreciation	400	441	105	946
Amortization of intangibles	—	27	—	27
Restructuring and severance	14	—	9	23
Litigation settlements and contingencies	—	—	385	385
Total costs and expenses	31,860	3,569	4,115	39,544
Operating income (loss)	7,189	(474)	(4,115)	2,600
Adjustments to reconcile to Adjusted EBITDA:				
Amortization of intangibles	—	27	—	27
Depreciation	400	441	105	946
Restructuring and severance	14	—	9	23
Loss on disposal of assets	—	27	17	44
Non-cash compensation	528	169	724	1,421
Acquisition expense	—	74	—	74
Litigation settlements and contingencies	—	—	385	385
Adjusted EBITDA	\$ 8,131	\$ 264	\$ (2,875)	\$ 5,520
Operating income			\$	2,600
Interest expense				—
Income before income taxes			\$	2,600

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

	Three Months Ended June 30, 2013 ^(a)			
	Lending	Other	Corporate	Total
Revenue	\$ 33,781	\$ 3,003	\$ 622	\$ 37,406
Costs and expenses:				
Cost of revenue <i>(exclusive of depreciation shown separately below)</i>	1,395	163	392	1,950
Selling and marketing expense	24,119	2,262	5	26,386
General and administrative expense	874	420	4,357	5,651
Product development	1,226	266	—	1,492
Depreciation	345	426	101	872
Amortization of intangibles	—	43	—	43
Restructuring and severance	23	125	—	148
Litigation settlements and contingencies	—	—	2,909	2,909
Total costs and expenses	27,982	3,705	7,764	39,451
Operating income (loss)	5,799	(702)	(7,142)	(2,045)
Adjustments to reconcile to Adjusted EBITDA:				
Amortization of intangibles	—	43	—	43
Depreciation	345	426	101	872
Restructuring and severance	23	125	—	148
Loss on disposal of assets	—	—	—	—
Non-cash compensation	483	95	854	1,432
Litigation settlements and contingencies	—	—	2,909	2,909
Adjusted EBITDA	\$ 6,650	\$ (13)	\$ (3,278)	\$ 3,359
Operating loss			\$ (2,045)	
Interest expense				(7)
Loss before income taxes			\$ (2,052)	

(a) For comparative purposes, revenue from and expenses related to personal loan offerings have been recast from the "Other" category to the lending segment.

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

	Six Months Ended June 30, 2014			
	Lending	Other	Corporate	Total
Revenue	\$ 75,977	\$ 6,203	\$ —	\$ 82,180
Costs and expenses:				
Cost of revenue (exclusive of depreciation shown separately below)	3,318	242	—	3,560
Selling and marketing expense	52,571	3,842	—	56,413
General and administrative expense	2,493	1,397	7,721	11,611
Product development	3,097	661	—	3,758
Depreciation	763	734	204	1,701
Amortization of intangibles	—	55	—	55
Restructuring and severance	162	15	48	225
Litigation settlements and contingencies	—	—	8,092	8,092
Total costs and expenses	62,404	6,946	16,065	85,415
Operating income (loss)	13,573	(743)	(16,065)	(3,235)
Adjustments to reconcile to Adjusted EBITDA:				
Amortization of intangibles	—	55	—	55
Depreciation	763	734	204	1,701
Restructuring and severance	162	15	48	225
Loss on disposal of assets	—	35	17	52
Non-cash compensation	1,127	434	1,476	3,037
Acquisition expense	—	74	—	74
Litigation settlements and contingencies	—	—	8,092	8,092
Adjusted EBITDA	\$ 15,625	\$ 604	\$ (6,228)	\$ 10,001
Operating loss				(3,235)
Interest expense				—
Loss before income taxes				\$ (3,235)

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

	Six Months Ended June 30, 2013 ^(a)			
	Lending	Other	Corporate	Total
Revenue	\$ 59,454	\$ 5,410	\$ 622	\$ 65,486
Costs and expenses:				
Cost of revenue <i>(exclusive of depreciation shown separately below)</i>	2,550	337	419	3,306
Selling and marketing expense	39,279	4,357	5	43,641
General and administrative expense	1,852	930	9,425	12,207
Product development	2,176	521	—	2,697
Depreciation	719	843	195	1,757
Amortization of intangibles	—	86	—	86
Restructuring and severance	23	125	(2)	146
Litigation settlements and contingencies	—	—	3,937	3,937
Total costs and expenses	46,599	7,199	13,979	67,777
Operating income (loss)	12,855	(1,789)	(13,357)	(2,291)
Adjustments to reconcile to Adjusted EBITDA:				
Amortization of intangibles	—	86	—	86
Depreciation	719	843	195	1,757
Restructuring and severance	23	125	(2)	146
Loss on disposal of assets	—	—	24	24
Non-cash compensation	896	237	1,733	2,866
Discretionary cash bonus	—	—	920	920
Litigation settlements and contingencies	—	—	3,937	3,937
Adjusted EBITDA	\$ 14,493	\$ (498)	\$ (6,550)	\$ 7,445
Operating loss				(2,291)
Interest expense				(14)
Loss before income taxes				\$ (2,305)

(a) For comparative purposes, revenue from and expenses related to personal loan offerings have been recast from the "Other" category to the lending segment.

NOTE 11—RESTRUCTURING

Accrued restructuring costs primarily relate to lease obligations for call center leases exited in 2010, which are expected to be completed by 2015. Restructuring expense and payments against liabilities are as follows *(in thousands)*:

	Continuing Lease Obligations
Balance at December 31, 2013	\$ 462
Restructuring expense	8
Payments	(148)
Balance at June 30, 2014	\$ 322

The Company does not expect to incur significant additional costs related to the restructuring noted above.

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

NOTE 12—DISCONTINUED OPERATIONS

On May 12, 2011, the Company entered into an asset purchase agreement, later amended on February 7, 2012, that provided for the sale of substantially all of the operating assets of its LendingTree Loans business to Discover. The sale was completed on June 6, 2012. Discover has participated as a network lender since the closing of the transaction. An evaluation of the facts and circumstances of the transaction and the applicable accounting guidance for discontinued operations indicates that the LendingTree Loans business should be reflected as discontinued operations in the accompanying consolidated financial statements for all periods presented. The continuing cash flows related to this transaction are not significant and, accordingly, are not deemed to be direct cash flows of the divested business.

The Company agreed to indemnify Discover for a breach or inaccuracy of any representation, warranty or covenant made by it in the asset purchase agreement, for any liability of LendingTree Loans that was not assumed, for any claims by its stockholders against Discover and for its failure to comply with any applicable bulk sales law, subject to certain limitations. Discover submitted a claim for indemnification relating to the sale prior to the closing of certain loans that were listed in the asset purchase agreement as to be conveyed to Discover at closing. In May 2013, this indemnification claim and other miscellaneous items were settled by agreeing to credit Discover for \$1.3 million in future services. A majority of these credits were applied against services during the year ended December 31, 2013. The remaining credits were exhausted in the first quarter of 2014.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$ 2	\$ (292)	\$ 4	\$ (1,486)
Income (loss) before income taxes	\$ (2,930)	\$ (891)	\$ (3,501)	\$ (3,382)
Income tax benefit (expense)	(1)	—	(4)	(51)
Gain from sale of discontinued operations, net of tax	—	10,003	—	10,101
Net income (loss)	\$ (2,931)	\$ 9,112	\$ (3,505)	\$ 6,668

The assets and liabilities of discontinued operations in the accompanying consolidated balance sheets are as follows (*in thousands*):

	June 30, 2014	December 31, 2013
Current assets	\$ 715	\$ 521
Non-current assets	100	129
Current liabilities	(32,620)	(32,004)
Non-current liabilities	(261)	(254)
Net liabilities	\$ (32,066)	\$ (31,608)

Significant Assets and Liabilities of LendingTree Loans

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

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

Loan Loss Obligations

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

HLC, a subsidiary of the Company, continues to be liable for these indemnification obligations, repurchase obligations and premium repayment obligations following the sale of substantially all of the operating assets of its LendingTree Loans business in the second quarter of 2012. As of June 30, 2014, approximately \$19.2 million is being held in escrow pending resolution of certain of these contingent liabilities. The Company has been negotiating with certain secondary market purchasers to settle any existing and future contingent liabilities, but it may not be able to complete such negotiations on acceptable terms, or at all. Because LendingTree Loans does not service the loans it sold, it does not maintain nor generally have access to the current balances and loan performance data with respect to the individual loans previously sold to investors. Accordingly, LendingTree Loans is unable to determine, with precision, its maximum exposure for breaches of the representations and warranties it made to the investors that purchased such loans.

During the fourth quarter of 2013, the Company revised its estimation process for evaluating the adequacy of the reserve for loan losses to use a settlement discount framework. This model estimates the lifetime losses on the population of remaining loans originated and sold by LendingTree Loans using actual defaults for loans with similar characteristics and projected future defaults. It also considers the likelihood of claims expected due to alleged breaches of representations and warranties made by LendingTree Loans and the percentage of those claims investors estimate LendingTree Loans may agree to repurchase. A settlement discount factor is then applied to the result of the foregoing to reflect publicly announced bulk settlements for similar loan types and vintages, as well as LendingTree Loans' non-operating status, in order to estimate a range of potential obligation.

The estimated range of remaining loan losses using this settlement discount framework was determined to be \$15.9 million to \$28.8 million as of June 30, 2014. The reserve balance recorded as of June 30, 2014 was \$28.4 million. Management has considered both objective and subjective factors in the estimation process, but given current general industry trends in mortgage loans as well as housing prices and market expectations, actual losses related to LendingTree Loans' obligations could vary significantly from the obligation recorded as of the balance sheet date or the range estimated above.

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

The following table represents the loans sold for the periods shown and the aggregate loan losses through June 30, 2014:

Period of Loan Sales	June 30, 2014					
	Number of Loans Sold	Original Principal Balance	Number of Loans with Losses	Original Principal Balance of Loans with Losses	Amount of Aggregate Losses	
		<i>(in billions)</i>		<i>(in millions)</i>	<i>(in millions)</i>	
2014	—	\$ —	—	\$ —	—	\$ —
2013	—	—	—	—	—	—
2012	9,200	1.9	—	—	—	—
2011	12,500	2.7	1	0.3	0.1	0.1
2010	12,400	2.8	4	1.1	0.1	0.1
2009	12,800	2.8	5	1.2	0.2	0.2
2008	11,000	2.2	33	6.9	2.2	2.2
2007	36,300	6.1	160	22.1	8.2	8.2
2006	55,000	7.9	207	24.5	13.4	13.4
2005 and prior years	86,700	13.0	89	12.3	5.0	5.0
Total	235,900	\$ 39.4	499	\$ 68.4	\$ 29.2	\$ 29.2

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

In the second quarter of 2014, LendingTree Loans completed settlements with two buyers of previously purchased loans. The settlement amounts were included in charge-offs to the reserve in the second quarter of 2014. The settlement amounts for these settlements were not determined on an individual loan basis and are, therefore, not included in the loss amounts disclosed above for the years such loans were sold.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Loan loss reserve, beginning of period	\$ 28,543	\$ 28,379	\$ 28,543	\$ 27,182
Provisions	—	296	—	1,493
Charge-offs to reserves	(153)	—	(153)	—
Loan loss reserve, end of period	\$ 28,390	\$ 28,675	\$ 28,390	\$ 28,675

The liability for losses on previously sold loans is presented as current liabilities of discontinued operations in the accompanying consolidated balance sheet as of June 30, 2014 and December 31, 2013.

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

Cautionary Statement Regarding Forward-Looking Information

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

Actual results could differ materially from those contained in the forward-looking statements. Factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include those matters discussed or referenced in Part II, Item 1A. *Risk Factors* and Part I, Item 1A. *Risk Factors* of the 2013 Annual Report.

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

Company Overview

Tree.com is the parent of LendingTree, LLC which owns several brands and businesses that provide information, tools, advice, products and services for critical transactions in consumers' lives. Our family of brands includes: LendingTree®, GetSmart®, LendingTree AutosSM, LendingTree EducationSM and LendingTree Home ProsSM. Together, these brands serve as an ally for consumers who are looking to comparison-shop for loans and other services from multiple businesses and professionals who will compete for their business.

In June 2014, we launched the new My LendingTree, a platform that combines personalization and comparison shopping, while providing free credit scores, monthly updates, credit score analysis and an in-depth view of a consumer's credit profile. This new platform is LendingTree's most significant innovation since the creation of the online loan marketplace concept 18 years ago.

The businesses of RealEstate.com, REALTORS® and LendingTree Loans are presented as discontinued operations in the accompanying consolidated balance sheets, consolidated statements of operations and consolidated cash flows for all periods presented. The analysis within Management's Discussion and Analysis of Financial Condition and Results of Operations reflects our continuing operations.

Reportable and Operating Segments

Our four operating segments are lending, auto, education and home services. We sometimes refer to these operating segments as our "businesses". Of these, only our lending operating segment meets the criteria for a reportable segment. We formerly referred to this reportable segment as our mortgage segment. The auto, education and home services operating segments are reported in the "Other" category in our segment reconciling information. See Note 10 —Segment Information to the consolidated financial statements included elsewhere in this report.

Seasonality

Revenue is subject to the cyclical and seasonal trends of the U.S. housing and mortgage markets. Home sales typically rise during the spring and summer months and decline during the fall and winter months, while refinancing and home equity activity is principally driven by mortgage interest rates as well as real estate values. However, in recent periods additional factors affecting the mortgage and real estate markets have impacted customary seasonal trends.

Recent Mortgage Interest Rate Trends

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

According to Freddie Mac, in 2013, mortgage interest rates rose gradually through the first five months of the year. In June 2013, mortgage interest rates increased more significantly, subsequently peaking at 4.49% in September 2013, then dropped more than a quarter-point early in the fourth quarter of 2013 and then increased again to 4.46% by the end of 2013.

In the first half of 2014, mortgage interest rates declined to 4.16% in June 2014 and averaged 4.23% during the second quarter, as compared to averages of 4.36% and 3.69% during the first quarter of 2014 and second quarter of 2013, respectively. According to Mortgage Bankers Association ("MBA") data, lower average mortgage interest rates during the second quarter of 2014 resulted in an 18% increase in the total dollar volume of mortgage originations as compared to the first quarter of 2014. In contrast, higher average mortgage interest rates during the second quarter of 2014 as compared to the second quarter of 2013 resulted in a 50% decline in the total dollar volume of mortgage originations.

For the remaining quarters of 2014, MBA is projecting the dollar volume of aggregate mortgage originations to be slightly higher than first half of 2014 levels. Notwithstanding that anticipated improvement from the first half of 2014, full year 2014 projected aggregate mortgage originations of approximately \$1.0 trillion are expected to represent a decline of 42% from 2013 and the lowest level of originations since 2000, resulting from increasing mortgage interest rates projected to average 4.5% in 2014, as compared to 3.98% in 2013. The rise in mortgage interest rates will also continue to move the mix of mortgage originations towards purchase, with estimated refinance share of originations of 63% in 2013 declining to 43% in 2014, according to MBA data.

The U.S. Real Estate Market

The U.S. real estate market continued its recovery in 2013, as job growth improved and demand drove the market, resulting in nationwide sales of existing homes at their highest level since 2006, according to the National Association of Realtors ("NAR"). However, despite continued job growth in the first half of 2014, nationwide sales of existing homes have declined approximately 6% and 8% as compared to both the first and second halves of 2013, respectively, likely associated with affordability. The median existing home price was up over 4% in June 2014 as compared to one year ago, which marks the 28th consecutive month of year-over-year price gains, according to the NAR. The NAR suggests that affordability due to stagnant wage growth below price growth is holding back what should be a stronger pace of sales in the U.S. market. Nonetheless, the NAR believes that housing fundamentals are trending positively, as rising home inventory continues to push overall supply towards a more balanced market.

Results of Operations for the Three and Six Months ended June 30, 2014 and 2013

Revenue

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	\$ Change	% Change	2014	2013	\$ Change	% Change
<i>(Dollars in thousands)</i>								
Lending	\$ 39,049	\$ 33,781	\$ 5,268	16 %	\$ 75,977	\$ 59,454	\$ 16,523	28 %
Other	3,095	3,003	92	3 %	6,203	\$ 5,410	793	15 %
Corporate	—	622	(622)	(100)%	—	\$ 622	(622)	(100)%
Total revenue	\$ 42,144	\$ 37,406	\$ 4,738	13 %	\$ 82,180	\$ 65,486	\$ 16,694	25 %

Revenue from our lending segment increased in the second quarter and first six months of 2014, compared to the second quarter and first six months of 2013, primarily due to increases in our purchase and non-mortgage products. Within our lending segment, revenue from mortgage products increased \$1.5 million in the second quarter of 2014 compared to the second quarter of 2013 and \$10.5 million in the first six months of 2014 compared to the first six months of 2013. Revenue from non-mortgage

products within our lending segment increased \$3.7 million in the second quarter of 2014 compared to the second quarter of 2013 and \$6.0 million in the first six months of 2014 compared to the first six months of 2013. Our non-mortgage products within our lending segment include the following products: personal loans, home equity and reverse mortgage. Revenue from each of these non-mortgage products increased in the second quarter and first six months of 2014 compared to the second quarter and first six months of 2013. Our reverse mortgage product was introduced in the first quarter of 2013 and our personal loan product was re-launched in the third quarter of 2013.

The number of consumers matched on our lending exchange increased by 32% in the second quarter of 2014 compared to the second quarter of 2013 and by 44% in the first six months of 2014 compared to the first six months of 2013. Our average revenue earned from network lenders per matched consumer decreased by 13% in the second quarter of 2014 compared to the second quarter of 2013 and by 11% in the first six months of 2014 compared to the first six months of 2013. The decrease in revenue earned per matched consumer was primarily due to the increased relative contribution of our purchase and non-mortgage lending products, which have lower revenue per matched consumer rates than refinance, which had been a bigger portion of our business previously.

Other revenue, which includes our auto, education, home services and other businesses, increased in the second quarter and first six months of 2014 compared to the second quarter and first six months of 2013. The increase in other revenue in the first six months of 2014 compared to the first six months of 2013 is primarily due to an increase of \$2.2 million in our auto business, partially offset by a decrease in our education and home services businesses of \$1.3 million.

Corporate revenue in 2013 was primarily related to fees for certain marketing-related services provided in connection with the sale of our LendingTree Loans business. We completed these services in the second quarter of 2013.

Cost of revenue

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	\$ Change	% Change	2014	2013	\$ Change	% Change
	<i>(Dollars in thousands)</i>							
Lending	\$ 1,773	\$ 1,395	\$ 378	27 %	\$ 3,318	\$ 2,550	\$ 768	30 %
Other	122	163	(41)	(25)%	242	\$ 337	(95)	(28)%
Corporate	—	392	(392)	(100)%	—	\$ 419	(419)	(100)%
Total cost of revenue	\$ 1,895	\$ 1,950	\$ (55)	(3)%	\$ 3,560	\$ 3,306	\$ 254	8 %
<i>As a percentage of total revenue</i>	4%	5%			4%	5%		

Lending cost of revenue increased in the second quarter of 2014 from the second quarter of 2013, primarily due to increases of \$0.2 million in credit scoring fees and \$0.1 million in credit card fees. Lending cost of revenue increased in the first six months of 2014 from the first six months of 2013, primarily due to increases of \$0.3 million in credit card fees, \$0.3 million in credit scoring fees and \$0.1 million in compensation and other employee-related costs.

Other cost of revenue decreased in the second quarter and first six months of 2014 compared to the second quarter and first six months of 2013, primarily due to decreases in third-party call center fees.

Corporate cost of revenue in 2013 reflects costs associated with the marketing-related services provided in connection with the sale of our LendingTree Loans business. We completed these services in the second quarter of 2013.

Selling and marketing expense

Selling and marketing expense consists primarily of advertising and promotional expenditures, fees paid to lead sources and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in sales or marketing functions. Advertising and promotional expenditures primarily include online marketing, as well as television, print and radio spending. Advertising production costs are expensed in the period the related ad is first run.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	\$ Change	% Change	2014	2013	\$ Change	% Change
<i>(Dollars in thousands)</i>								
Lending	\$ 26,952	\$ 24,119	\$ 2,833	12 %	\$ 52,571	\$ 39,279	\$ 13,292	34 %
Other	2,012	2,262	(250)	(11)%	3,842	4,357	(515)	(12)%
Corporate	—	5	(5)	(100)%	—	5	(5)	(100)%
Total selling and marketing expense	\$ 28,964	\$ 26,386	\$ 2,578	10 %	\$ 56,413	\$ 43,641	\$ 12,772	29 %
<i>As a percentage of total revenue</i>	69%	71%			69%	67%		

The increases in lending selling and marketing expense in the second quarter and first six months of 2014 compared to the second quarter and first six months of 2013 are primarily due to increases in advertising expense of \$2.9 million and \$13.0 million, respectively, as discussed below.

The increases in lending advertising expense correspond to 32% and 44% increases in consumers matched with network lenders in the second quarter of 2014 compared to the second quarter of 2013 and the first six months of 2014 compared to the first six months of 2013, respectively.

Other selling and marketing expense decreased in the second quarter and first six months of 2014 from the second quarter and first six months of 2013, primarily due to decreases in compensation expense and benefits as a result of decreases in headcount.

Total selling and marketing expense as a percentage of revenue decreased in the second quarter of 2014 compared to the second quarter of 2013, primarily due to a decrease in broadcast spend for the national advertising campaign for our LendingTree brand. Total selling and marketing expense as a percentage of revenue increased in the first six months of 2014 compared to the first six months of 2013, primarily due to the national advertising campaign for our LendingTree brand which launched in the second quarter of 2013 and continues through the second quarter of 2014.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	\$ Change	% Change	2014	2013	\$ Change	% Change
<i>(Dollars in thousands)</i>								
Online	\$ 22,093	\$ 17,015	\$ 5,078	30 %	\$ 40,233	\$ 29,703	\$ 10,530	35%
Broadcast	3,055	3,644	(589)	(16)%	5,684	4,147	1,537	37%
Other	1,225	3,052	(1,827)	(60)%	5,249	4,481	768	17%
Total advertising expense	\$ 26,373	\$ 23,711	\$ 2,662	11 %	\$ 51,166	\$ 38,331	\$ 12,835	33%

We increased our online advertising expenditures in the second quarter and first six months of 2014 compared to the second quarter and first six months of 2013, in order to generate additional lending lead volume to meet the increased demand of network lenders on our mortgage exchange. Our broadcast and other advertising was higher in the second quarter of 2013 than in the second quarter of 2014, as we spent to support our new national advertising campaign for our LendingTree brand, which commenced in the second quarter of 2013. Our broadcast and other advertising was higher in the first six months of 2014 than in the first six months of 2013 due to the timing of the the launch of our national advertising campaign in 2013.

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

General and administrative expense

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	\$ Change	% Change	2014	2013	\$ Change	% Change
<i>(Dollars in thousands)</i>								
Lending	\$ 1,247	\$ 874	\$ 373	43 %	\$ 2,493	\$ 1,852	\$ 641	35 %
Other	615	420	195	46 %	1,397	930	467	50 %
Corporate	3,616	4,357	(741)	(17)%	7,721	9,425	(1,704)	(18)%
Total general and administrative expense	\$ 5,478	\$ 5,651	\$ (173)	(3)%	\$ 11,611	\$ 12,207	\$ (596)	(5)%
<i>As a percentage of total revenue</i>	13%	15%			14%	19%		

Lending general and administrative expense increased in the second quarter and first six months of 2014 from the second quarter and first six months of 2013, primarily due to increases in compensation and benefits of \$0.3 million and \$0.4 million, respectively, and increases in computer software maintenance of \$0.1 million and \$0.2 million, respectively. General and administrative expense in the other businesses increased in the second quarter and first six months of 2014 from the second quarter and first six months of 2013, primarily due to increases in compensation and benefits of \$0.2 million and \$0.5 million, respectively. During the second quarter and first six months of 2013, a portion of the incentive compensation for individuals in the lending and other businesses was allocated to corporate. The incentive compensation plan was modified in 2014, and as a result, for the second quarter and first six months of 2014, the lending and other businesses reflect the full incentive compensation for individuals in these businesses. Additionally, non-cash incentive compensation increased in the first quarter and first six months of 2014 from the first quarter and first six months of 2013.

Corporate general and administrative expense decreased during the second quarter of 2014 from the second quarter 2013, primarily due to decreased compensation and benefits of \$0.4 million, and a decrease in professional fees of \$0.2 million. The decrease in compensation and benefits in the second quarter of 2014 from the second quarter of 2013 is primarily due to the reduction in incentive compensation classified in corporate due to the allocation discussed above.

Corporate general and administrative expense decreased during the first six months of 2014 from the first six months of 2013, primarily due to decreased compensation and benefits of \$1.7 million. The decrease in compensation and benefits in the first six months of 2014 from the first six months of 2013 is primarily due to a compensation charge of \$0.9 million related to a discretionary cash bonus payment to employee stock option holders in the first quarter of 2013, in addition to the reduction in incentive compensation classified in corporate due to the allocation discussed above.

General and administrative expense in the second quarter and first six months of 2014 was spread over proportionately greater revenue during the period, resulting in improvements in general and administrative expense as a percentage of revenue.

Product development

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	\$ Change	% Change	2014	2013	\$ Change	% Change
<i>(Dollars in thousands)</i>								
Lending	\$ 1,474	\$ 1,226	\$ 248	20%	\$ 3,097	\$ 2,176	\$ 921	42%
Other	352	266	86	32%	661	521	140	27%
Corporate	—	—	—	—%	—	—	—	—%
Total product development	\$ 1,826	\$ 1,492	\$ 334	22%	\$ 3,758	\$ 2,697	\$ 1,061	39%
<i>As a percentage of total revenue</i>	4%	4%			5%	4%		

Product development expense increased in the second quarter and first six months of 2014 as compared to the second quarter and first six months of 2013, primarily due to increases in compensation and other employee-related costs. We increased headcount

in the second quarter and first six months of 2014 compared to the second quarter and first six months of 2013, in order to support planned product launches for 2014.

Depreciation

Depreciation expense has remained relatively consistent during the second quarter and first six months of 2014 compared to the second quarter and first six months of 2013.

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 litigations we are pursuing. During the second quarters and first six months of 2014 and 2013, litigation settlements and contingencies is primarily due to legal fees incurred in connection with various patent litigations we are currently pursuing.

During the first quarter of 2014, we participated in a jury trial for the Zillow litigation, described in Note 9—Contingencies to the consolidated financial statements included elsewhere in this report. The legal expenses associated with this jury trial increased our litigation settlements and contingencies expense for the first quarter of 2014. We will continue to incur litigation expenses on this matter for post-trial matters, including appeal and costs relating to various pending post-trial motions. While we expect legal expenses related to this matter to decline significantly in future periods, we cannot predict the additional impact that this litigation may have on full year 2014 litigation settlements and contingencies.

Income tax provision

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	<i>(Dollars in thousands)</i>			
Income tax benefit (provision)	\$ 83	\$ 19	\$ 84	\$ (1)
Effective tax rate	3.2%	0.9%	2.6%	—%

For the second quarter and first six months of 2014, the effective tax rates varied from the statutory rate primarily due to the existence of a valuation allowance that has been provided to offset our net deferred tax asset, after excluding deferred tax liabilities related to indefinite-lived intangible assets that are not going to provide a source of taxable income in the foreseeable future, and state tax refunds.

For the second quarter and first six months of 2013, the effective income tax rates varied from the statutory rate due primarily to the impact of the valuation allowance, indefinite-lived intangible assets and state taxes.

There have been no changes to our valuation allowance assessment for the second quarter and first six months of 2014.

Discontinued Operations

For the second quarter and first six months of 2014, losses from discontinued operations of \$2.9 million and \$3.5 million were primarily attributable to operating losses associated with the LendingTree Loans business, the sale of which was completed on June 6, 2012. These operating losses were primarily related to litigation settlements and contingencies and legal fees associated with ongoing legal proceedings.

For the second quarter and first six months of 2013, income from discontinued operations of \$9.1 million and \$6.7 million were primarily attributable to the \$10.0 million gain from the sale of LendingTree Loans business, offset by \$0.9 million and \$3.4 million of operating losses associated with that business. These operating losses were primarily related to legal fees associated with ongoing legal proceedings.

Adjusted EBITDA

We report Adjusted EBITDA as a supplemental measure to GAAP. This measure is the primary metric by which we evaluate the performance of our businesses, on which our marketing expenditures and internal budgets are based and by which management

and many employees are compensated. We believe that investors should have access to the same set of tools that we use in analyzing our results. This non-GAAP measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. We provide and encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measures discussed below.

Definition of Adjusted EBITDA

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

One-Time Items

Adjusted EBITDA is adjusted for one-time items, if applicable. Items are considered one-time in nature if they are non-recurring, infrequent or unusual and have not occurred in the past two years or are not expected to recur in the next two years, in accordance with SEC rules. For the periods presented in this report, there are no adjustments for one-time items, except for \$0.9 million related to a discretionary cash bonus payment to employee stock option holders in the first quarter of 2013.

Non-Cash Expenses that are Excluded from Adjusted EBITDA

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

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

The following table is a reconciliation of Adjusted EBITDA to net income (loss) for continuing operations by segment.

	Three Months Ended June 30, 2014			
	Lending	Other	Corporate	Total
	<i>(in thousands)</i>			
Adjusted EBITDA by segment	\$ 8,131	\$ 264	\$ (2,875)	\$ 5,520
Adjustments to reconcile to net income (loss) from continuing operations:				
Amortization of intangibles	—	(27)	—	(27)
Depreciation	(400)	(441)	(105)	(946)
Restructuring and severance	(14)	—	(9)	(23)
Loss on disposal of assets	—	(27)	(17)	(44)
Non-cash compensation	(528)	(169)	(724)	(1,421)
Acquisition expense	—	(74)	—	(74)
Litigation settlements and contingencies	—	—	(385)	(385)
Other expense, net	—	—	—	—
Income tax benefit (provision)	—	—	83	83
Net income (loss) from continuing operations	\$ 7,189	\$ (474)	\$ (4,032)	\$ 2,683

	Three Months Ended June 30, 2013			
	Lending	Other	Corporate	Total
	<i>(in thousands)</i>			
Adjusted EBITDA by segment	\$ 6,650	\$ (13)	\$ (3,278)	\$ 3,359
Adjustments to reconcile to net income (loss) from continuing operations:				
Amortization of intangibles	—	(43)	—	(43)
Depreciation	(345)	(426)	(101)	(872)
Restructuring and severance	(23)	(125)	—	(148)
Gain on disposal of assets	—	—	—	—
Non-cash compensation	(483)	(95)	(854)	(1,432)
Litigation settlements and contingencies	—	—	(2,909)	(2,909)
Other expense, net	—	—	(7)	(7)
Income tax benefit (provision)	—	—	19	19
Net income (loss) from continuing operations	\$ 5,799	\$ (702)	\$ (7,130)	\$ (2,033)

	Six Months Ended June 30, 2014			
	Lending	Other	Corporate	Total
	<i>(in thousands)</i>			
Adjusted EBITDA by segment	\$ 15,625	\$ 604	\$ (6,228)	\$ 10,001
Adjustments to reconcile to net income (loss) from continuing operations:				
Amortization of intangibles	—	(55)	—	(55)
Depreciation	(763)	(734)	(204)	(1,701)
Restructuring and severance	(162)	(15)	(48)	(225)
Loss on disposal of assets	—	(35)	(17)	(52)
Non-cash compensation	(1,127)	(434)	(1,476)	(3,037)
Acquisition expense	—	(74)	—	(74)
Litigation settlements and contingencies	—	—	(8,092)	(8,092)
Other expense, net	—	—	—	—
Income tax benefit (provision)	—	—	84	84
Net income (loss) from continuing operations	\$ 13,573	\$ (743)	\$ (15,981)	\$ (3,151)

	Six Months Ended June 30, 2013			
	Lending	Other	Corporate	Total
	<i>(in thousands)</i>			
Adjusted EBITDA by segment	\$ 14,493	\$ (498)	\$ (6,550)	\$ 7,445
Adjustments to reconcile to net income (loss) from continuing operations:				
Amortization of intangibles	—	(86)	—	(86)
Depreciation	(719)	(843)	(195)	(1,757)
Restructuring and severance	(23)	(125)	2	(146)
Gain on disposal of assets	—	—	(24)	(24)
Non-cash compensation	(896)	(237)	(1,733)	(2,866)
Discretionary cash bonus	—	—	(920)	(920)
Litigation settlements and contingencies	—	—	(3,937)	(3,937)
Other expense, net	—	—	(14)	(14)
Income tax benefit (provision)	—	—	(1)	(1)
Net income (loss) from continuing operations	\$ 12,855	\$ (1,789)	\$ (13,372)	\$ (2,306)

Financial Position, Liquidity and Capital Resources

General

We expect our cash and cash equivalents and cash flows from operations to be sufficient to fund our operating and other needs for the next twelve months and beyond.

As of June 30, 2014, we had \$87.6 million of cash and cash equivalents and \$22.0 million of restricted cash and cash equivalents, compared to \$91.7 million of cash and cash equivalents and \$26.0 million of restricted cash and cash equivalents as of December 31, 2013.

Cash Flows from Continuing Operations

Our cash flows attributable to continuing operations are as follows:

	Six Months Ended June 30,	
	2014	2013
	<i>(in thousands)</i>	
Net cash provided by operating activities	\$ 2,182	\$ 1,070
Net cash provided by (used in) investing activities	1,404	(1,869)
Net cash used in financing activities	(4,847)	(2,641)

Cash Flows from Operating Activities

Net cash provided by operating activities attributable to continuing operations in the first six months of 2014 was \$2.2 million and consisted primarily of losses from continuing operations of \$3.2 million, more than offset by positive adjustments for non-cash items of \$5.0 million and cash provided by working capital of \$0.3 million. Adjustments for non-cash items primarily consisted of \$3.1 million in non-cash compensation expense and \$1.7 million of depreciation. Accounts payable, accrued expenses and other current liabilities increased \$1.1 million, primarily due to increased marketing efforts and legal fees associated with the jury trial for the Zillow patent litigation, which was partially offset by a \$1.0 million payment to settle an earnout dispute related to an acquisition. We expect a significant use of cash during the third quarter of 2014, as legal fees from the jury trial are paid.

Net cash provided by operating activities attributable to continuing operations in the first six months of 2013 was \$1.1 million and consisted of losses from continuing operations of \$2.3 million and cash used for working capital of \$1.4 million, more than offset by positive adjustments for non-cash items of \$4.8 million. Adjustments for non-cash items primarily consisted of \$2.9 million of non-cash compensation expense and \$1.8 million of depreciation. Accounts receivable increased \$6.9 million, primarily

due to increases in revenue. Accounts payable, accrued expenses and other current liabilities increased by \$6.2 million, primarily due to increased marketing efforts and a new branding campaign.

Cash Flows from Investing Activities

Net cash provided by investing activities attributable to continuing operations in the first six months of 2014 of \$1.4 million consisted primarily of a decrease in restricted cash of \$4.0 million, which was partially offset by capital expenditures of \$2.0 million and a business acquisition of \$0.5 million. During the first quarter of 2014, we reached and executed a settlement with the disputing party on the earnout related to an acquisition, upon which \$2.0 million of cash previously held in escrow was released. Additionally, during the second quarter of 2014, we reached and executed a settlement with one of our secondary market purchasers related to loan loss obligations, upon which \$2.0 million of cash previously held in escrow was released.

Net cash used in investing activities attributable to continuing operations in the first six months of 2013 of \$1.9 million resulted primarily from capital expenditures of \$1.2 million and an increase in restricted cash of \$0.7 million.

Cash Flows from Financing Activities

Net cash used in financing activities attributable to continuing operations in the first six months of 2014 of \$4.8 million consisted primarily of \$3.2 million in employee withholding taxes paid by us upon employees' surrender of shares to satisfy withholding obligations on equity awards and \$1.5 million for the repurchase of our common stock.

Net cash used in financing activities attributable to continuing operations in the first six months of 2013 of \$2.6 million was primarily due to \$1.5 million in employee withholding taxes paid by us upon employees' surrender of shares to satisfy withholding obligations on equity awards and \$1.5 million for the repurchase of our common stock.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements other than our operating lease obligations and funding commitments pursuant to our surety bonds.

Summary of Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2013. There have been no material changes to our contractual obligations since December 31, 2013.

Contractual Obligations	Payments Due By Period as of December 31, 2013				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Loan loss reserve ^(a)	\$ 28,543	\$ 28,543	\$ —	\$ —	\$ —
Operating lease obligations ^(b)	2,812	1,809	1,003	—	—
Total contractual obligations	\$ 31,355	30,352	1,003	—	—

(a) Our HLC subsidiary continues to be liable for the indemnification obligations, repurchase obligations and premium repayment obligations following the sale of substantially all of the operating assets of our LendingTree Loans business in the second quarter of 2012. An estimate of these obligations is reflected within current liabilities of discontinued operations on the December 31, 2013 consolidated balance sheet. We have been negotiating with certain secondary market purchasers to settle any existing and future contingent liabilities. Due to uncertainties in the timing of these negotiations, which could occur at any time, the balance of the loan loss reserve has been reflected as due in less than one year.

(b) Our operating lease obligations are associated with office space, equipment and services used in both our continuing and discontinued operations. These obligations have not been reduced by the \$0.4 million of minimum sublease rental income to be received in the future under non-cancelable subleases.

New Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09 related to revenue recognition. This ASU was initiated as a joint project between the FASB and the IASB to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and IFRS. This guidance will supersede the existing revenue recognition requirements in ASC Topic 605, Revenue Recognition and is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted and the ASU can be applied (i) retrospectively to each prior period presented or (ii) retrospectively with the cumulative effect of initially adopting the ASU recognized at the date of initial application. We are evaluating the impact this ASU will have on our consolidated financial statements.

There are no recently issued accounting pronouncements that were adopted during the quarter ended June 30, 2014.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We do not have any financial instruments that are exposed to significant market risk. We maintain our cash and cash equivalents in short-term, highly liquid money market investments. A hypothetical 100-basis point increase or decrease in market interest rates would not have a material impact on the fair value of our cash equivalents securities or our results of operations or cash flows.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), management, with the participation of our principal executive officer (our Chief Executive Officer) and principal financial officer (our Chief Financial Officer), evaluated, as of the end of the period covered by this report, the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of June 30, 2014, to reasonably ensure that information required to be disclosed and filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified, and that management will be timely alerted to material information required to be included in our periodic reports filed with the Securities and Exchange Commission.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our second fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION**Item 1. Legal Proceedings**

In the ordinary course of business, we are party to litigation involving property, contract, intellectual property and a variety of other claims. The amounts that may be recovered in such matters may be subject to insurance coverage. We have provided information about certain legal proceedings in which we are involved in Part I, Item 3 *Legal Proceedings* of our 2013 Annual Report and updated that information in Note 9—Contingencies to the consolidated financial statements included elsewhere in this report.

Item 1A. Risk Factors

There have been no material changes to the risk factors included in Part II, Item 1A. *Risk Factors* of our quarterly report on Form 10-Q for the quarter ended March 31, 2014 and Part I, Item 1A. *Risk Factors* of our 2013 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

On January 11, 2010, the board of directors approved a stock repurchase program which allowed for the repurchase of up to \$10.0 million of our common stock. On May 7, 2014, the board of directors authorized an additional \$10.0 million to the stock repurchase program. At June 30, 2014, approximately \$8.6 million remained authorized for share repurchase under this program. Under this program, we can repurchase stock in the open market or through privately-negotiated transactions. We began this program in February 2010 and we have used available cash to finance these repurchases. We will determine the timing and amount of any additional repurchases based on our evaluation of market conditions, applicable SEC guidelines and regulations, and other factors. This program may be suspended or discontinued at any time at the discretion of our board of directors. We repurchased 59,200 shares of common stock under the stock repurchase program during the quarter ended June 30, 2014.

Additionally, the Tree.com Fourth Amended and Restated 2008 Stock and Award Incentive Plan allows employees to forfeit shares of our common stock to satisfy federal and state withholding obligations upon the exercise of stock options, the settlement of restricted stock unit awards and the vesting of restricted stock awards granted to those individuals under this plan. During the quarter ended June 30, 2014, 18,008 shares were purchased related to these obligations under the Tree.com Fourth Amended and Restated 2008 Stock and Award Incentive Plan. The withholding of those shares does not affect the dollar amount or number of shares that may be purchased under the stock repurchase program described above.

The following table provides information about the company's purchases of equity securities during the quarter ended June 30, 2014.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number/Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs <i>(in thousands)</i>
April 2014	8,145	\$ 30.32	—	\$ 100
May 2014	27,769	\$ 24.18	22,000	\$ 9,567
June 2014	41,294	\$ 26.29	37,200	\$ 8,587
Total	77,208	\$ 25.96	59,200	\$ 8,587

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit	Description	Location
3.1	Amended and Restated Certificate of Incorporation of Tree.com, Inc.	Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed August 25, 2008
3.2	Second Amended and Restated By-laws of Tree.com, Inc.	Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q filed November 12, 2013
10.1	Fourth Amended and Restated Tree.com, Inc. 2008 Stock and Annual Incentive Plan	†
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	†
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	†
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	††
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	††
101.INS	XBRL Instance Document	†††
101.SCH	XBRL Taxonomy Extension Schema Document	†††
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	†††
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	†††
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	†††
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	†††

† Filed herewith

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

††† Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

* Management or compensation plan or agreement.

**FOURTH AMENDED AND RESTATED
TREE.COM, INC.
2008 STOCK AND ANNUAL INCENTIVE PLAN**

Section 1. Purpose; Definition

The Company's Board originally adopted the Plan effective as of August 20, 2008 and the Plan was originally approved by Company stockholders on August 20, 2008. The Plan has been subsequently amended and restated by the Board on previous occasions with such restatements also approved by Company stockholders. The Board's most recent restatement of the Plan, the Fourth Amended and Restated Tree.com, Inc. 2008 Stock and Annual Incentive Plan (the "*Fourth Plan Restatement*"), was effected on April 21, 2014 (the "*Board Approval Date*"). This Fourth Plan Restatement is conditioned upon and subject to obtaining Company stockholder approval before the first anniversary of the Board Approval Date. The Fourth Plan Restatement and all of its terms shall become effective upon the date the Company stockholders approve the Fourth Plan Restatement, as long as such date is within twelve months of the Board Approval Date. If Company stockholder approval is not obtained before the first anniversary of the Board Approval Date, the Fourth Plan Restatement shall be null and void.

The purpose of this Plan is (a) to give the Company a competitive advantage in attracting, retaining and motivating officers, employees, directors and/or consultants and to provide the Company and its Subsidiaries and Affiliates with a stock and incentive plan providing incentives directly linked to stockholder value and (b) to assume and govern other awards pursuant to the adjustment of awards granted under any IAC Long Term Incentive Plan (as defined in the Employee Matters Agreement) in accordance with the terms of the Employee Matters Agreement ("*Adjusted Awards*").

Certain terms used herein have definitions given to them in the first place in which they are used. In addition, for purposes of this Plan, the following terms are defined as set forth below provided however that if a Participant's Individual Agreement or Award Agreement expressly includes defined terms that expressly are different from and/or conflict with the defined terms contained in this Plan then the defined terms contained in the Individual Agreement or Award Agreement shall govern and shall supersede the definitions provided in this Plan:

- (a) "*Affiliate*" means a corporation or other entity controlled by, controlling or under common control with, the Company.
- (b) "*Applicable Exchange*" means Nasdaq or such other securities exchange as may at the applicable time be the principal market for the Common Stock.
- (c) "*Award*" means an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, or Bonus Award or other stock based award granted or assumed pursuant to the terms of this Plan, including Adjusted Awards.
- (d) "*Award Agreement*" means a written or electronic document or agreement setting forth the terms and conditions of a specific Award.
- (e) "*Beneficial Ownership*" shall have the meaning given in Rule 13d-3 promulgated under the Exchange Act.
- (f) "*Board*" means the Board of Directors of the Company.
- (g) "*Bonus Award*" means a bonus award made pursuant to Section 9.
- (h) "*Cause*" means: (i) "*Cause*" as defined in any Individual Agreement to which the applicable Participant is a party, or (ii) if there is no such Individual Agreement or if it does not define Cause: (A) the willful or gross neglect by a Participant of his employment duties; (B) the plea of guilty or *nolo contendere* to, or conviction for, the commission of a felony offense by a Participant; (C) a material breach by a Participant of a fiduciary duty owed to the Company or any of its subsidiaries; (D) a material breach by a Participant of any nondisclosure, non-solicitation or non-competition obligation owed to the Company or any of its Affiliates; or (E) before a Change in Control, such other events as shall be determined by the Committee and set forth in a Participant's Award Agreement. Notwithstanding the general rule of Section 2(c), following a Change in Control, any determination by the Committee as to whether "*Cause*" exists shall be subject to *de novo* review. The Board or Committee may in its discretion determine that a Participant's employment with, or performance of services for, the Company and any of its Subsidiaries or Affiliates may be deemed to have been terminated for Cause if, after the Participant's employment and/or service has terminated,

facts and circumstances are discovered that would have justified a termination for Cause, including, without limitation, violation of material Company policies or breach of confidentiality or other restrictive covenants that may apply to the Participant.

(i) “*Change in Control*” has the meaning set forth in Section 10(c).

(j) “*Code*” means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto, the Treasury Regulations thereunder and other relevant interpretive guidance issued by the Internal Revenue Service or the Treasury Department. Reference to any specific section of the Code shall be deemed to include such regulations and guidance, as well as any successor provision of the Code.

(k) “*Commission*” means the Securities and Exchange Commission or any successor agency.

(l) “*Committee*” has the meaning set forth in Section 2(a).

(m) “*Common Stock*” means common stock, par value \$0.01 per share, of the Company.

(n) “*Company*” means Tree.com, Inc., a Delaware corporation, or its successor.

(o) “*Disability*” means (i) “Disability” as defined in any Individual Agreement to which the Participant is a party, or (ii) if there is no such Individual Agreement or it does not define “Disability,” (A) permanent and total disability as determined under the Company’s long-term disability plan applicable to the Participant, or (B) if there is no such plan applicable to the Participant or the Committee determines otherwise in an applicable Award Agreement, “Disability” as determined by the Committee. Notwithstanding the above, with respect to an Incentive Stock Option, Disability shall mean Permanent and Total Disability as defined in Section 22(e)(3) of the Code and, with respect to each Award that constitutes a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code, the foregoing definition shall apply for purposes of vesting of such Award, provided that such Award shall not be settled until the earliest of: (i) the Participant’s “disability” within the meaning of Section 409A of the Code, or (ii) the Participant’s “separation from service” within the meaning of Section 409A of the Code and (iii) the date such Award would otherwise be settled pursuant to the terms of the Award Agreement.

(p) “*Disaffiliation*” means a Subsidiary’s or Affiliate’s ceasing to be a Subsidiary or Affiliate for any reason (including, without limitation, as a result of a public offering, or a spinoff or sale by the Company, of the stock of the Subsidiary or Affiliate) or a sale of a division of the Company and its Affiliates.

(q) “*EBITA*” means for any period, operating profit (loss) plus (i) amortization, including goodwill impairment, (ii) amortization of non-cash distribution and marketing expense and non-cash compensation expense, (iii) restructuring charges, (iv) non-cash write-downs of assets or goodwill, (v) charges relating to disposal of lines of business, (vi) litigation settlement amounts and (vii) costs incurred for proposed and completed acquisitions.

(r) “*EBITDA*” means for any period, operating profit (loss) plus (i) depreciation and amortization, including goodwill impairment, (ii) amortization of non-cash distribution and marketing expense and non-cash compensation expense, (iii) restructuring charges, (iv) non-cash write-downs of assets or goodwill, (v) charges relating to disposal of lines of business, (vi) litigation settlement amounts and (vii) costs incurred for proposed and completed acquisitions.

(s) “*Eligible Individuals*” means directors, officers, employees and consultants of the Company or any of its Subsidiaries or Affiliates, and prospective employees and consultants who have accepted offers of employment or consultancy from the Company or its Subsidiaries or Affiliates.

(t) “*Employee Matters Agreement*” means the Employee Matters Agreement by and among IAC, Ticketmaster, Interval Leisure Group, Inc., HSN, Inc. and Tree.com, Inc.

(u) “*Exchange Act*” means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

(v) “*Fair Market Value*” means, unless otherwise determined by the Committee, the closing price of a share of Common Stock on the Applicable Exchange on the date of measurement, or if Shares were not traded on the Applicable Exchange on such measurement date, then on the next preceding date on which Shares were traded, all as reported by such source as the Committee may select. If the Common Stock is not listed on a national securities exchange, Fair Market Value shall be determined by the Committee in its good faith discretion, taking into account, to the extent appropriate, the requirements of Section 409A of the Code.

- (w) “Free-Standing SAR” has the meaning set forth in Section 5(b).
- (x) “Grant Date” means (i) the date on which the Committee by resolution selects an Eligible Individual to receive a grant of an Award and determines the number of Shares to be subject to such Award or the formula for earning a number of shares or cash amount, (ii) such later date as the Committee shall provide in such resolution or (iii) the initial date on which an Adjusted Award was granted under the IAC Long Term Incentive Plan.
- (y) “Group” shall have the meaning given in Section 13(d)(3) and 14(d)(2) of the Exchange Act.
- (z) “IAC” means IAC/InterActiveCorp, a Delaware corporation.
- (aa) “Incentive Stock Option” means any Option that is designated in the applicable Award Agreement as an “incentive stock option” within the meaning of Section 422 of the Code, and that in fact so qualifies.
- (ab) “Individual Agreement” means an employment, consulting or similar agreement between a Participant and the Company or one of its Subsidiaries or Affiliates.
- (ac) “Nasdaq” means the National Association of Securities Dealers Inc. Automated Quotation System.
- (ad) “Nonqualified Option” means any Option that is not an Incentive Stock Option.
- (ae) “Option” means an Award granted under Section 5.
- (af) “Participant” means an Eligible Individual to whom an Award is or has been granted.
- (ag) “Performance Goals” means the performance goals established by the Committee in connection with the grant of Restricted Stock, Restricted Stock Units or Bonus Awards or other stock-based awards. In the case of Qualified Performance-Based Awards, (1) such goals shall be based on the attainment of one or any combination of the following: specified levels of earnings per share from continuing operations, net profit after tax, EBITDA, EBITA, gross profit, cash generation, unit volume, market share, sales, asset quality, earnings per share, operating income, revenues, return on assets, return on operating assets, return on equity, profits, total stockholder return (measured in terms of stock price appreciation and/or dividend growth), cost saving levels, marketing-spending efficiency, core non-interest income, change in working capital, return on capital, and/or stock price, with respect to the Company or any Subsidiary, Affiliate, division or department of the Company and (2) such Performance Goals shall be set by the Committee within the time period prescribed by Section 162(m) of the Code and related regulations. Such Performance Goals also may be based upon the attaining of specified levels of Company, Subsidiary, Affiliate or divisional performance under one or more of the measures described above relative to the performance of other entities, divisions or subsidiaries. The Committee may, in its sole discretion, provide that one or more objectively determinable adjustments shall be made to one or more of the Performance Goals. Such adjustments may include one or more of the following: (i) items related to a change in or provisions under tax law, accounting principles or other such laws or provisions affecting reported results; (ii) items relating to financing activities; (iii) expenses for restructuring or productivity initiatives; (iv) other non-operating items; (v) items related to reorganizations or restructuring programs or divestitures or acquisitions; (vi) items attributable to the business operations of any entity acquired by the Company during a performance period; (vii) items related to asset write-downs or the disposal of a business or segment of a business; (viii) items related to discontinued operations that do not qualify as a segment of a business under generally accepted accounting principles; (ix) items attributable to any stock dividend, stock split, combination or exchange of shares occurring during a performance period; (x) any other items of significant income or expense which are determined to be appropriate adjustments; (xi) items relating to unusual or extraordinary corporate transactions, events or developments, (xii) items related to amortization of acquired intangible assets; (xiii) items that are outside the scope of the Company’s core, on-going business activities; (xiv) items relating to any other unusual or nonrecurring events or changes in applicable laws, accounting principles or business conditions and/or items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence; or (xv) litigation or claim judgments or settlements. For all Awards intended to qualify as Qualified Performance-Based Awards, such determinations shall be made within the time prescribed by, and otherwise in compliance with, Section 162(m) of the Code.
- (ah) “Plan” means this Fourth Amended and Restated Tree.com, Inc. 2008 Stock and Annual Incentive Plan, as set forth herein and as hereafter amended from time to time.
- (ai) “Plan Year” means the calendar year or, with respect to Bonus Awards, the Company’s fiscal year if different.

11. (aj) “*Qualified Performance-Based Award*” means an Award intended to qualify for the Section 162(m) Exemption, as provided in Section

(ak) “*Restricted Stock*” means an Award granted under Section 6.

(al) “*Restricted Stock Units*” means an Award granted under Section 7.

(am) “*Resulting Voting Power*” shall mean the outstanding combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors (or equivalent governing body, if applicable) of the entity resulting from a Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries).

(an) “*Retirement*” means retirement from active employment with the Company, a Subsidiary or Affiliate at or after the Participant’s attainment of age 65.

(ao) “*Section 162(m) Exemption*” means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code.

(ap) “*Separation*” has the meaning set forth in the Employee Matters Agreement.

(aq) “*Share*” means a share of Common Stock.

(ar) “*Specified Employee*” shall mean any individual who is a “key employee” (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) with respect to the Company and its Affiliates, as determined by the Company (or the Affiliate, in the event that the Affiliate and the Company are not considered a single employer under Sections 414(b) or 414(c) of the Code) in accordance with its uniform policy with respect to all arrangements subject to Section 409A of the Code, based upon the twelve (12) month period ending on each December 31st. All individuals who are determined to be key employees under Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (without regard to paragraph (5) thereof) on December 31st shall be treated as Specified Employees for purposes of the Plan during the twelve (12) month period that begins on the following April 1st.

(as) “*Stock Appreciation Right*” has the meaning set forth in Section 5(b).

(at) “*Subsidiary*” means any corporation, partnership, joint venture, limited liability company or other entity during any period in which at least a 50% voting or profits interest is owned, directly or indirectly, by the Company or any successor to the Company.

(au) “*Tandem SAR*” has the meaning set forth in Section 5(b).

(av) “*Term*” means the maximum period during which an Option or Stock Appreciation Right may remain outstanding, subject to earlier termination upon Termination of Employment or otherwise, as specified in the applicable Award Agreement.

(aw) “*Termination of Employment*” means the termination of the applicable Participant’s employment with, or performance of services for, the Company and any of its Subsidiaries or Affiliates. Unless otherwise determined by the Committee, if a Participant’s employment with, or membership on a board of directors of the Company and its Affiliates terminates but such Participant continues to provide services to the Company and its Affiliates in a non-employee director capacity or as an employee, as applicable, such change in status shall not be deemed a Termination of Employment. A Participant employed by, or performing services for, a Subsidiary or an Affiliate or a division of the Company and its Affiliates shall be deemed to incur a Termination of Employment if, as a result of a Disaffiliation, such Subsidiary, Affiliate, or division ceases to be a Subsidiary, Affiliate or division, as the case may be, and the Participant does not immediately thereafter become an employee of (or service provider for), or member of the board of directors of, the Company or another Subsidiary or Affiliate. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and its Subsidiaries and Affiliates shall not be considered Terminations of Employment. Notwithstanding the foregoing, with respect to any Award that constitutes a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code, “Termination of Employment” shall mean a “separation from service” as defined under Section 409A of the Code. For the avoidance of doubt, the Separation shall not constitute a Termination of Employment for purposes of any Adjusted Award. However, for purposes of determining whether an employee’s outstanding Incentive Stock Options are eligible to continue to qualify as Incentive Stock Options (and not become Nonqualified Options), an employee’s employment and/or services will be treated as terminating three (3) months after such employee went on leave, unless such employee’s right to return to active work is guaranteed by law or by a contract.

(ax) “10-Percent Shareholder” means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company, its parent corporation or any of its Subsidiaries. In determining stock ownership, the attribution rules of Section 424(d) of the Code shall be applied.

Section 2. Administration

(a) *Committee.* The Plan shall be administered by the Compensation Committee of the Board or such other committee of the Board as the Board may from time to time designate (the “Committee”), which shall be composed of not less than two directors, and shall be appointed by and serve at the pleasure of the Board. The Committee shall, subject to Section 11, have plenary authority to grant Awards pursuant to the terms of the Plan to Eligible Individuals. Among other things, the Committee shall have the authority, subject to the terms and conditions of the Plan and the Employee Matters Agreement (including the original terms of the grant of the Adjusted Award):

- (i) to select the Eligible Individuals to whom Awards may from time to time be granted;
- (ii) to determine whether and to what extent Incentive Stock Options, Nonqualified Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, other stock-based awards, or any combination thereof, are to be granted hereunder;
- (iii) to determine the number of Shares to be covered by each Award granted hereunder;
- (iv) to determine the terms and conditions, including Performance Goals (if any) and their degree of satisfaction, of each Award granted hereunder, based on such factors as the Committee shall determine;
- (v) subject to Section 12, to modify, amend or adjust the terms and conditions of any Award;
- (vi) to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable;
- (vii) subject to Section 11, to accelerate the vesting or lapse of restrictions of any outstanding Award and/or to extend the exercise period of an Award, based in each case on such considerations as the Committee in its sole discretion determines;
- (viii) to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreement relating thereto);
- (ix) to establish any “blackout” period that the Committee in its sole discretion deems necessary or advisable;
- (x) to determine whether, to what extent, and under what circumstances cash, Shares, and other property and other amounts payable with respect to an Award under this Plan shall be deferred either automatically or at the election of the Participant;
- (xi) to decide all other matters that must be determined in connection with an Award; and
- (xii) to otherwise administer the Plan.

(b) *Procedures.*

- (i) The Committee may act only by a majority of its members then in office, except that the Committee may, except to the extent prohibited by applicable law or the listing standards of the Applicable Exchange and subject to Section 11, allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it.
- (ii) Subject to Section 11(c), any authority granted to the Committee may also be exercised by the full Board. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

(c) *Discretion of Committee.* Subject to Section 1(h), any determination made by the Committee or by an appropriately delegated officer pursuant to delegated authority under the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or such delegate at the time of the grant of the Award or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee or any appropriately delegated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company, Participants, and Eligible Individuals, and shall receive the maximum deference permitted under applicable laws.

(d) *Award Agreements.* The terms and conditions of each Award, as determined by the Committee, shall be set forth in an Award Agreement, which shall be delivered to the Participant receiving such Award upon, or as promptly as is reasonably practicable following, the grant of such Award. The effectiveness of an Award shall not be subject to the Award Agreement's being signed by the Company and the Participant receiving the Award unless specifically so provided in the Award Agreement. Award Agreements may be amended only in accordance with Section 12 hereof. Notwithstanding any provision of the Plan or an Award Agreement to the contrary, in the event that any term of an Award Agreement conflicts with any provision of the Plan that specifically pertains to Section 409A of the Code, the provision of the Plan shall govern.

Section 3. Common Stock Subject to Plan

(a) *Plan Maximums.* The maximum number of Shares that may be delivered pursuant to Awards under the Plan shall be the sum of (a) the number of Shares that may be issuable upon exercise or vesting of the Adjusted Awards and (b) 4,350,000. The maximum number of Shares that are permitted to be issued pursuant to the exercise of Incentive Stock Options granted under the Plan as described in Section 5 shall be 2,833,333 Shares. Shares subject to an Award under the Plan may be authorized and unissued Shares or may be treasury Shares.

(b) *Individual Limits.* No Eligible Individual or Participant may be granted Awards covering in excess of 2,433,333 Shares during the term of the Plan (i.e., August 20, 2008 - August 20, 2018); *provided* that Adjusted Awards shall not be subject to this limitation.

(c) *Rules for Calculating Shares Delivered.*

(i) With respect to Awards other than Adjusted Awards, to the extent that any Award is forfeited, or any Option and the related Tandem SAR (if any) or Free-Standing SAR terminates, expires or lapses without being exercised (specifically including the Award contemplated by clause (iii) below), or any Award is settled for cash, (A) the Shares subject to such Awards not delivered as a result thereof shall again be available for Awards under the Plan and (B) other than with respect to any Awards settled for cash, such Shares shall no longer be counted when calculating the respective Participant's individual limit set forth in Section 3(b).

(ii) With respect to Awards other than Adjusted Awards, if the exercise price of any Option and/or the tax withholding obligations relating to any Award are satisfied by delivering Shares to the Company (by either actual delivery or by attestation), only the number of Shares issued net of the Shares delivered or attested to shall be deemed delivered for purposes of the limits set forth in Section 3(a). To the extent any Shares subject to an Award are withheld to satisfy the exercise price (in the case of an Option) and/or the tax withholding obligations relating to such Award, such Shares shall not be deemed to have been delivered for purposes of the limits set forth in Section 3(a).

(iii) Notwithstanding anything in this Plan to the contrary (including Sections 5(d) and 12(c) hereof), Douglas R. Lebda may surrender for cancellation an option to purchase 589,500 shares of Common Stock with an exercise price of \$25.43 per share awarded on August 21, 2008 and the Shares subject to such Option shall be available for future Awards under the Plan (including to Mr. Lebda) immediately following such surrender.

(iv) Any dividend equivalents distributed under the Plan shall count against the Share limits set forth in Sections 3(a) and (b). Dividend equivalents will not be paid (or accrue) on unexercised Options or unexercised Stock Appreciation Rights.

(d) *Adjustment Provision.* In the event of a merger, consolidation, acquisition of property or shares, stock rights offering, liquidation, Disaffiliation, or similar event affecting the Company or any of its Subsidiaries (each, a "*Corporate Transaction*"), the Committee or the Board may in its discretion make such substitutions or adjustments as it deems appropriate and equitable to (w) the aggregate number and kind of Shares or other securities reserved for issuance and delivery under the Plan,

(x) the various maximum limitations set forth in Sections 3(a) and 3(b) upon certain types of Awards and upon the grants to individuals of certain types of Awards, (y) the number and kind of Shares or other securities subject to outstanding Awards; and (z) the exercise price of outstanding Options and Stock Appreciation Rights. In the event of a stock dividend, stock split, reverse stock split, separation, spinoff, reorganization, extraordinary dividend of cash or other property, share combination, or recapitalization or similar event affecting the capital structure of the Company (each, a “*Share Change*”), the Committee or the Board shall make such substitutions or adjustments as it deems appropriate and equitable to (i) the aggregate number and kind of Shares or other securities reserved for issuance and delivery under the Plan, (ii) the various maximum limitations set forth in Sections 3(a) and 3(b) upon certain types of Awards and upon the grants to individuals of certain types of Awards, (iii) the number and kind of Shares or other securities subject to outstanding Awards; and (iv) the exercise price of outstanding Options and Stock Appreciation Rights. In the case of Corporate Transactions, such adjustments may include, without limitation, (1) the cancellation of outstanding Awards in exchange for payments of cash, property or a combination thereof having an aggregate value equal to the value of such Awards, as determined by the Committee or the Board in its sole discretion (it being understood that in the case of a Corporate Transaction with respect to which stockholders of Common Stock receive consideration other than publicly traded equity securities of the ultimate surviving entity, any such determination by the Committee that the value of an Option or Stock Appreciation Right shall for this purpose be deemed to equal the excess, if any, of the value of the consideration being paid for each Share pursuant to such Corporate Transaction over the exercise price of such Option or Stock Appreciation Right shall conclusively be deemed valid); (2) the substitution of other property (including, without limitation, cash or other securities of the Company and securities of entities other than the Company) for the Shares subject to outstanding Awards; and (3) in connection with any Disaffiliation, arranging for the assumption of Awards, or replacement of Awards with new awards based on other property or other securities (including, without limitation, other securities of the Company and securities of entities other than the Company), by the affected Subsidiary, Affiliate, or division or by the entity that controls such Subsidiary, Affiliate, or division following such Disaffiliation (as well as any corresponding adjustments to Awards that remain based upon Company securities). The Committee may adjust in its sole discretion the Performance Goals applicable to any Awards to reflect any Share Change and any Corporate Transaction and any unusual or non-recurring events and other extraordinary items, impact of charges for restructurings, discontinued operations, and the cumulative effects of accounting or tax changes, each as defined by generally accepted accounting principles or as identified in the Company’s financial statements, notes to the financial statements, management’s discussion and analysis or the Company’s other SEC filings, *provided* that in the case of Performance Goals applicable to any Qualified Performance-Based Awards, such adjustment does not violate Section 162(m) of the Code. Any adjustment under this Section 3(d) need not be the same for all Participants. Any adjustment of Shares pursuant to this Section 3(d) shall be rounded down to the nearest whole number of Shares. Under no circumstances shall the Company be required to authorize or issue fractional shares. To the extent permitted by applicable law, no consideration shall be provided as a result of any fractional shares not being issued or authorized.

(e) *Section 409A*. Notwithstanding the foregoing: (i) any adjustments made pursuant to Section 3(d) to Awards that are considered “deferred compensation” within the meaning of Section 409A of the Code shall be made in compliance with the requirements of Section 409A of the Code; and (ii) any adjustments made pursuant to Section 3(d) to Awards that are not considered “deferred compensation” subject to Section 409A of the Code shall be made in such a manner as to ensure that after such adjustment, the Awards either (A) continue not to be subject to Section 409A of the Code or (B) comply with the requirements of Section 409A of the Code.

Section 4. Eligibility

Awards may be granted under the Plan to Eligible Individuals and, with respect to Adjusted Awards, in accordance with the terms of the Employee Matters Agreement; *provided, however*, that Incentive Stock Options may be granted only to employees of the Company and its subsidiaries or parent corporation (within the meanings of Sections 424(e) and 424(f) of the Code) and, with respect to Adjusted Awards that are intended to qualify as incentive stock options within the meaning of Section 422 of the Code, in accordance with the terms of the Employee Matters Agreement.

Section 5. Options and Stock Appreciation Rights

With respect to Adjusted Awards, the provisions below will be applicable only to the extent that they are not inconsistent with the Employee Matters Agreement and the terms of the Adjusted Award assumed under the Employee Matters Agreement:

(a) *Types of Options*. Options may be of two types: Incentive Stock Options and Nonqualified Options. The Award Agreement for an Option shall indicate whether the Option is intended to be an Incentive Stock Option or a Nonqualified Option (and if not so indicated then the Option shall be a Nonqualified Option). An employee who is a 10-Percent Shareholder shall not be eligible for the grant of an Incentive Stock Option unless the requirements set forth in Section 422(c)(5) of the Code are satisfied. If and to the extent that any Shares are issued under a portion of any Option that exceeds the \$100,000 limitation of Section 422 of the Code, such Shares shall not be treated as issued under an Incentive Stock Option notwithstanding any designation otherwise.

Certain decisions, amendments, interpretations and actions by the Company or Committee and certain actions by a Participant may cause an Option to cease to qualify as an Incentive Stock Option pursuant to the Code and by accepting an Option, the Participant agrees in advance to such disqualifying action(s).

(b) *Types and Nature of Stock Appreciation Rights.* Stock Appreciation Rights may be “Tandem SARs,” which are granted in conjunction with an Option, or “Free-Standing SARs,” which are not granted in conjunction with an Option. Upon the exercise of a Stock Appreciation Right, the Participant shall be entitled to receive an amount in cash, Shares, or both, in aggregate value equal to the product of (i) the excess of the Fair Market Value of one Share over the exercise price of the applicable Stock Appreciation Right, multiplied by (ii) the number of Shares in respect of which the Stock Appreciation Right has been exercised. The applicable Award Agreement shall specify whether such payment is to be made in cash or Common Stock or both, or shall reserve to the Committee or the Participant the right to make that determination prior to or upon the exercise of the Stock Appreciation Right.

(c) *Tandem SARs.* A Tandem SAR may be granted at the Grant Date of the related Option. A Tandem SAR shall be exercisable only at such time or times and to the extent that the related Option is exercisable in accordance with the provisions of this Section 5, and shall have the same exercise price as the related Option. A Tandem SAR shall proportionately terminate or be forfeited upon the exercise or forfeiture of the related Option, and the related Option shall proportionately terminate or be forfeited upon the exercise or forfeiture of the Tandem SAR.

(d) *Exercise Price.* The exercise price per Share subject to an Option or Free-Standing SAR shall be determined by the Committee and set forth in the applicable Award Agreement, and shall not be less than the Fair Market Value of a Share (or less than 110% for 10-Percent Shareholders in the case of Incentive Stock Options) on the applicable Grant Date. In no event may any Option or Free-Standing SAR granted under this Plan be amended, other than pursuant to Section 3(d), to decrease the exercise price thereof, be cancelled in conjunction with the grant of any new Option or Free-Standing SAR with a lower exercise price or otherwise be subject to any action that would be treated, for accounting purposes, as a “repricing” of such Option or Free-Standing SAR, unless such amendment, cancellation, or action is approved by the Company’s stockholders.

(e) *Term.* The Term of each Option and each Free-Standing SAR shall be fixed by the Committee, but shall not exceed ten years from the Grant Date. Notwithstanding anything to the contrary, an Incentive Stock Option that is granted to a 10-Percent Shareholder shall have a maximum term of five years.

(f) *Vesting and Exercisability.* Except as otherwise provided herein, Options and Free-Standing SARs shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee. If the Committee provides that any Option or Free-Standing SAR will become exercisable only in installments, the Committee may at any time waive such installment exercise provisions, in whole or in part, based on such factors as the Committee may determine. In addition, the Committee may at any time accelerate the exercisability of any Option or Free-Standing SAR.

(g) *Method of Exercise.* Subject to the provisions of this Section 5, Options and Free-Standing SARs may be exercised, in whole or in part, at any time during the applicable Term by giving written notice of exercise to the Company or through the procedures established with the Company’s appointed third-party Option administrator specifying the number of Shares as to which the Option or Free-Standing SAR is being exercised; *provided, however,* that, unless otherwise permitted by the Committee, any such exercise must be with respect to a portion of the applicable Option or Free-Standing SAR relating to no less than the lesser of the number of Shares then subject to such Option or Free-Standing SAR or 100 Shares. In the case of the exercise of an Option, such notice shall be accompanied by payment in full of the purchase price (which shall equal the product of such number of Shares multiplied by the applicable exercise price) by certified or bank check or such other instrument as the Company may accept. If approved by the Committee, payment, in full or in part, may also be made as follows:

- (i) Payments may be made in the form of unrestricted Shares (by delivery of such Shares or by attestation) of the same class as the Common Stock subject to the Option already owned by the Participant (based on the Fair Market Value of the Common Stock on the date the Option is exercised); provided, however, that, in the case of an Incentive Stock Option, the right to make a payment in the form of already owned Shares of the same class as the Common Stock subject to the Option may be authorized only at the time the Option is granted.
- (ii) To the extent permitted by applicable law, payment may be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if requested, the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Company may, to the extent permitted by applicable law, enter into agreements for

coordinated procedures with one or more brokerage firms. To the extent permitted by applicable law, the Committee may also provide for Company loans to be made for purposes of the exercise of Options.

- (iii) Payment may be made by instructing the Company to withhold a number of Shares having a Fair Market Value (based on the Fair Market Value of the Common Stock on the date the applicable Option is exercised) equal to the product of (A) the exercise price multiplied by (B) the number of Shares in respect of which the Option shall have been exercised.

(h) *Delivery; Rights of Stockholders.* No Shares shall be delivered pursuant to the exercise of an Option until the exercise price therefor has been fully paid and the Participant has satisfied any applicable withholding or tax obligations relating to the Option. The applicable Participant shall have all of the rights of a stockholder of the Company holding the class or series of Common Stock that is subject to the Option or Stock Appreciation Right (including, if applicable, the right to vote the applicable Shares and the right to receive dividends), when the Participant (i) has given written notice of exercise, (ii) if requested, has given the representation described in Section 14(a), (iii) in the case of an Option, has paid in full for such Shares, and (iv) has satisfied any applicable withholding or tax obligations relating to the Option or Stock Appreciation Right.

(i) *Terminations of Employment.* Subject to Section 10, a Participant's Options and Stock Appreciation Rights shall be forfeited upon such Participant's Termination of Employment, except as set forth below:

- (i) Upon a Participant's Termination of Employment by reason of death, any Option or Stock Appreciation Right held by the Participant that was exercisable immediately before the Termination of Employment may be exercised at any time until the earlier of (A) the first anniversary of the date of such death and (B) the expiration of the Term thereof;
- (ii) Upon a Participant's Termination of Employment by reason of Disability or Retirement, any Option or Stock Appreciation Right held by the Participant that was exercisable immediately before the Termination of Employment may be exercised at any time until the earlier of (A) the first anniversary of such Termination of Employment and (B) the expiration of the Term thereof;
- (iii) Upon a Participant's Termination of Employment for any reason other than death, Disability, Retirement or for Cause, any Option or Stock Appreciation Right held by the Participant that was exercisable immediately before the Termination of Employment may be exercised at any time until the earlier of (A) three months following such Termination of Employment and (B) expiration of the Term thereof; and
- (iv) Notwithstanding the above provisions of this Section 5(i), if a Participant dies after such Participant's Termination of Employment but while any Option or Stock Appreciation Right remains exercisable as set forth above, such Option or Stock Appreciation Right may be exercised at any time until the later of (A) the first anniversary of the date of such death and (B) the last date on which such Option or Stock Appreciation Right would have been exercisable, absent this Section 5(i)(iv), but in no event later than the expiration of the Term thereof.

Notwithstanding the foregoing, the Committee shall have the power, in its discretion, to apply different rules concerning the consequences of a Termination of Employment; *provided, however*, that if such rules are less favorable to the Participant than those set forth above, such rules are set forth in the applicable Award Agreement. If an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Option will thereafter be treated as a Nonqualified Option.

(j) *Nontransferability of Options and Stock Appreciation Rights.* No Option or Free-Standing SAR shall be transferable by a Participant other than (i) by will or by the laws of descent and distribution, or (ii) in the case of a Nonqualified Option or Free-Standing SAR, pursuant to a qualified domestic relations order or as otherwise expressly permitted by the Committee including, if so permitted, pursuant to a transfer to the Participant's family members or to a charitable organization, whether directly or indirectly or by means of a trust or partnership or otherwise. For purposes of this Plan, unless otherwise determined by the Committee, "family member" shall have the meaning given to such term in General Instructions A.1(a)(5) to Form S-8 under the Securities Act of 1933, as amended, and any successor thereto. A Tandem SAR shall be transferable only with the related Option as permitted by the preceding sentence. Any Option or Stock Appreciation Right shall be exercisable, subject to the terms of this Plan, only by the applicable Participant, the guardian or legal representative of such Participant, or any person to whom such Option or Stock Appreciation Right is permissibly transferred pursuant to this Section 5(j), it being understood that the term

“Participant” includes such guardian, legal representative and other transferee; *provided, however*, that the term “Termination of Employment” shall continue to refer to the Termination of Employment of the original Participant.

Section 6. Restricted Stock

With respect to Adjusted Awards, the provisions below will be applicable only to the extent that they are not inconsistent with the Employee Matters Agreement and the terms of the Adjusted Award assumed under the Employee Matters Agreement:

(a) *Nature of Awards and Certificates.* Shares of Restricted Stock are actual Shares issued to a Participant, and shall be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of one or more stock certificates. Any certificate issued in respect of Shares of Restricted Stock shall be registered in the name of the applicable Participant and, in the case of Restricted Stock, shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form, in addition to any other legend the Committee determines appropriate:

“The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Tree.com, Inc. 2008 Stock and Annual Incentive Plan and an Award Agreement. Copies of such Plan and Agreement are on file at the offices of Tree.com, Inc., 11115 Rushmore Drive, Charlotte, NC 28277.”

The Committee may require that the certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of any Award of Restricted Stock, the applicable Participant shall have delivered a stock power, endorsed in blank, relating to the Common Stock covered by such Award.

(b) *Terms and Conditions.* Shares of Restricted Stock shall be subject to the following terms and conditions:

- (i) The Committee shall, prior to or at the time of grant, condition the vesting or transferability of an Award of Restricted Stock upon the continued service of the applicable Participant or the attainment of Performance Goals, or the attainment of Performance Goals and the continued service of the applicable Participant. In the event that the Committee conditions the grant or vesting of an Award of Restricted Stock upon the attainment of Performance Goals or the attainment of Performance Goals and the continued service of the applicable Participant, the Committee may, prior to or at the time of grant, designate such an Award as a Qualified Performance-Based Award. The conditions for grant, vesting, or transferability and the other provisions of Restricted Stock Awards (including without limitation any Performance Goals) need not be the same with respect to each Participant.
- (ii) Subject to the provisions of the Plan and the applicable Award Agreement, during the period, if any, set by the Committee, commencing with the date of such Restricted Stock Award for which such vesting restrictions apply and until the expiration of such vesting restrictions (the “Restriction Period”), the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber Shares of Restricted Stock.
- (iii) Except as provided in this Section 6 and in the applicable Award Agreement, the applicable Participant shall have, with respect to the Shares of Restricted Stock, all of the rights of a stockholder of the Company holding the class or series of Common Stock that is the subject of the Restricted Stock, including, if applicable, the right to vote the Shares and the right to receive any cash dividends. If so determined by the Committee in the applicable Award Agreement and subject to Section 14(e), (A) cash dividends on the class or series of Common Stock that is the subject of the Restricted Stock Award shall be automatically deferred and reinvested in additional Restricted Stock, held subject to the vesting of the underlying Restricted Stock, and (B) subject to any adjustment pursuant to Section 3(d), dividends payable in Common Stock shall be paid in the form of Restricted Stock of the same class as the Common Stock with which such dividend was paid, held subject to the vesting of the underlying Restricted Stock.
- (iv) Except as otherwise set forth in the applicable Award Agreement, upon a Participant’s Termination of Employment for any reason during the Restriction Period, all Shares of Restricted Stock still subject to restriction shall be forfeited by such Participant without consideration (except for repayment of any amounts the Participant had paid to the Company to acquire unvested Shares underlying the forfeited Awards); provided, however, that subject to Section 11(b), the Committee shall have the discretion to

waive, in whole or in part, any or all remaining restrictions with respect to any or all of such Participant's Shares of Restricted Stock.

- (v) If and when any applicable Performance Goals are satisfied and the Restriction Period expires without a prior forfeiture of the Shares of Restricted Stock for which legended certificates have been issued, unlegended certificates for such Shares shall be delivered to the Participant upon surrender of the legended certificates.

Section 7. Restricted Stock Units

With respect to Adjusted Awards, the provisions below will be applicable only to the extent that they are not inconsistent with the Employee Matters Agreement and the terms of the Adjusted Award assumed under the Employee Matters Agreement:

- (a) *Nature of Awards.* Restricted Stock Units are Awards denominated in Shares that will be settled, subject to the terms and conditions of the Restricted Stock Units, in an amount in cash, Shares or both, based upon the Fair Market Value of a specified number of Shares.
- (b) *Terms and Conditions.* Restricted Stock Units shall be subject to the following terms and conditions:
 - (i) The Committee shall, prior to or at the time of grant, condition the grant, vesting, or transferability of Restricted Stock Units upon the continued service of the applicable Participant or the attainment of Performance Goals, or the attainment of Performance Goals and the continued service of the applicable Participant. In the event that the Committee conditions the grant or vesting of Restricted Stock Units upon the attainment of Performance Goals or the attainment of Performance Goals and the continued service of the applicable Participant, the Committee may, prior to or at the time of grant, designate such Awards as Qualified Performance-Based Awards. The conditions for grant, vesting or transferability and the other provisions of Restricted Stock Units (including without limitation any Performance Goals) need not be the same with respect to each Participant. Except as otherwise provided in Section 7(b)(iv) or in the applicable Award Agreement, an Award of Restricted Stock Units shall be settled if and when the Restricted Stock Units vest (but in no event later than two and a half months after the end of the fiscal year in which the Restricted Stock Units vest).
 - (ii) Subject to the provisions of the Plan and the applicable Award Agreement, during the period, if any, set by the Committee, commencing with the date of such Restricted Stock Units for which such vesting restrictions apply and until the expiration of such vesting restrictions (the "Restriction Period"), the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber Restricted Stock Units.
 - (iii) The Award Agreement for Restricted Stock Units shall specify whether, to what extent and on what terms and conditions the applicable Participant shall be entitled to receive current or deferred payments of cash, Common Stock or other property corresponding to the dividends payable on the Common Stock (subject to Section 14(e) below).
 - (iv) Except as otherwise set forth in the applicable Award Agreement, upon a Participant's Termination of Employment for any reason during the Restriction Period, all Restricted Stock Units still subject to restriction shall be forfeited by such Participant; provided, however, that subject to Section 11(b), the Committee shall have the discretion to waive, in whole or in part, any or all remaining restrictions with respect to any or all of such Participant's Restricted Stock Units, provided, however, if any of such Participant's Restricted Stock Units constitute a "nonqualified deferred compensation plan" within the meaning of Section 409A of the Code, settlement of such Restricted Stock Units shall not occur until the earliest of (1) the date such Restricted Stock Units would otherwise be settled pursuant to the terms of the Award Agreement or (2) the Participant's "separation of service" within the meaning of Section 409A of the Code.

Section 8. Other Stock-Based Awards

Other Awards of Common Stock and other Awards that are valued in whole or in part by reference to, or are otherwise based upon or settled in, Common Stock, including (without limitation), unrestricted stock, performance units, dividend equivalents, and convertible debentures, may be granted under the Plan.

Section 9. Bonus Awards

(a) *Determination of Awards.* The Committee shall determine the total amount of Bonus Awards for each Plan Year or such shorter performance period as the Committee may establish in its sole discretion. Prior to the beginning of the Plan Year or such shorter performance period as the Committee may establish in its sole discretion (or such later date as may be prescribed by the Internal Revenue Service under Section 162(m) of the Code), the Committee shall establish Performance Goals for Bonus Awards for the Plan Year or such shorter period; *provided*, that such Performance Goals may be established at a later date for Participants who are not “covered employees” (within the meaning of Section 162(m)(3) of the Code). Bonus amounts payable to any individual Participant with respect to a Plan Year will be limited to a maximum of \$10 million. For performance periods that are shorter than a Plan Year, such \$10 million maximum may be prorated if so determined by the Committee.

(b) *Payment of Awards.* Bonus Awards under the Plan shall be paid in cash or in shares of Common Stock (valued at Fair Market Value as of the date of payment) as determined by the Committee, as soon as practicable following the close of the Plan Year or such shorter performance period as the Committee may establish. Bonus Awards under the Plan that are paid in shares of Common Stock shall count against the limits set forth in Sections 3(a) and (b) of the Plan. It is intended that a Bonus Award will be paid no later than the fifteenth (15th) day of the third month following the later of: (i) the end of the Participant’s taxable year in which the requirements for such Bonus Award have been satisfied by the Participant or (ii) the end of the Company’s fiscal year in which the requirements for such Bonus Award have been satisfied by the Participant. The Committee may at its option establish procedures pursuant to which Participants are permitted to defer the receipt of Bonus Awards payable hereunder. The Bonus Award for any Plan Year or such shorter performance period to any Participant may be reduced or eliminated by the Committee in its discretion.

Section 10. Change in Control Provisions

(a) *Adjusted Awards.* With respect to all Adjusted Awards, subject to Sections 3(d), 3(e), 10(e) and 14(k) unless otherwise provided in the applicable Award Agreement, notwithstanding any other provision of this Plan to the contrary, upon a Participant’s Termination of Employment, during the two-year period following a Change in Control, by the Company other than for Cause or Disability or by the Participant for Good Reason (as defined below):

- (i) Any Options outstanding as of such Termination of Employment which were outstanding as of the date of such Change in Control (and were not cancelled, substituted, assumed or replaced in connection with such Change in Control) shall be fully exercisable and vested and shall remain exercisable until the later of (i) the last date on which such Option would be exercisable in the absence of this Section 10(a) and (ii) the first anniversary of such Change in Control, but in no event later than the expiration of the Term of such Option;
- (ii) The restrictions and deferral limitations applicable to any Restricted Stock shall lapse, and such Restricted Stock outstanding as of such Termination of Employment which were outstanding as of the date of such Change in Control shall become free of all restrictions and become fully vested and transferable; and
- (iii) All Restricted Stock Units outstanding as of such Termination of Employment which were outstanding as of the date of such Change in Control shall be considered to be earned and payable in full, and any restrictions shall lapse and such Restricted Stock Units shall be settled as promptly as is practicable in the form set forth in the applicable Award Agreement; provided, however, that with respect to any Restricted Stock Unit that constitutes a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code, the settlement of each such Restricted Stock Unit pursuant to this Section 10(a)(iii) shall not occur until the earliest of (1) the Change in Control if such Change in Control constitutes a “change in the ownership of the corporation,” a “change in effective control of the corporation” or a “change in the ownership of a substantial portion of the assets of the corporation,” within the meaning of Section 409A(a)(2)(A)(v) of the Code, (2) the date such Restricted Stock Units would otherwise be settled pursuant to the terms of the Award Agreement and (3) the Participant’s “separation of service” within the meaning of Section 409A of the Code, subject in all cases to Section 14(k).

(b) *Impact of Event on Awards other than Adjusted Awards.* Subject to paragraph (e) of this Section 10, and paragraph (d) of Section 12, unless otherwise provided in any applicable Award Agreement and except as otherwise provided in paragraph (a) of this Section 10, in connection with a Change of Control, the Committee may make such adjustments and/or settlements of outstanding Awards as it deems appropriate and consistent with the Plan’s purposes, including, without limitation, the termination

of and/or acceleration of vesting of Awards either upon a Change of Control or upon various terminations of employment following a Change of Control. The Committee may provide for such adjustments as a term of the Award or may make such adjustments following the granting of the Award.

(c) *Definition of Change in Control.* For purposes of the Plan, unless otherwise provided in an option agreement or other agreement relating to an Award, a “Change in Control” shall mean the happening of any of the following events:

- (i) The acquisition by any individual, entity or Group (a “Person”), other than the Company, of Beneficial Ownership of equity securities of the Company representing more than 50% of the voting power of the then outstanding equity securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that any acquisition that would constitute a Change in Control under this subsection (i) that is also a Business Combination shall be determined exclusively under subsection (iii) below; or
- (ii) Individuals who, as of the Effective Date, constitute the Board (the “Incumbent Directors”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date, whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the Incumbent Directors at such time shall become an Incumbent Director, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
- (iii) Consummation of a reorganization, merger, consolidation, sale or other disposition of all or substantially all of the assets of the Company, the purchase of assets or stock of another entity, or other similar corporate transaction (a “Business Combination”), in each case, unless immediately following such Business Combination, (A) more than 50% of the Resulting Voting Power shall reside in Outstanding Company Voting Securities retained by the Company’s stockholders in the Business Combination and/or voting securities received by such stockholders in the Business Combination on account of Outstanding Company Voting Securities, and (B) at least a majority of the members of the board of directors (or equivalent governing body, if applicable) of the entity resulting from such Business Combination were Incumbent Directors at the time of the initial agreement, or action of the Board, providing for such Business Combination; or
- (iv) Consummation of a complete liquidation or dissolution of the Company.

Notwithstanding the foregoing, the Separation shall not constitute a Change in Control. For the avoidance of doubt, with respect to Adjusted Awards, any reference in an Award Agreement or the applicable IAC Long Term Incentive Plan to a “change in control,” “change of control” or similar definition shall be deemed to refer to a Change of Control hereunder.

(d) For purposes of this Section 10, “Good Reason” means (i) “Good Reason” as defined in any Individual Agreement or Award Agreement to which the applicable Participant is a party, or (ii) if there is no such Individual Agreement or if it does not define Good Reason, without the Participant’s prior written consent: (A) a material reduction in the Participant’s rate of annual base salary from the rate of annual base salary in effect for such Participant immediately prior to the Change in Control, (B) a relocation of the Participant’s principal place of business more than 35 miles from the city in which such Participant’s principal place of business was located immediately prior to the Change in Control or (C) a material and demonstrable adverse change in the nature and scope of the Participant’s duties from those in effect immediately prior to the Change in Control. In order to invoke a Termination of Employment for Good Reason, a Participant shall provide written notice to the Company of the existence of one or more of the conditions described in clauses (A) through (C) within 90 days following the Participant’s knowledge of the initial existence of such condition or conditions, and the Company shall have 30 days following receipt of such written notice (the “Cure Period”) during which it may remedy the condition. In the event that the Company fails to remedy the condition constituting Good Reason during the Cure Period, the Participant must terminate employment, if at all, within 90 days following the Cure Period in order for such Termination of Employment to constitute a Termination of Employment for Good Reason.

(e) Notwithstanding the foregoing, if any Award is subject to Section 409A of the Code, this Section 10 shall be applicable only to the extent specifically provided in the Award Agreement and as permitted pursuant to Section 14(k).

Section 11. Qualified Performance-Based Awards; Section 16(b)

(a) The provisions of this Plan are intended to ensure that all Options and Stock Appreciation Rights granted hereunder to any Participant who is or may be a “covered employee” (within the meaning of Section 162(m)(3) of the Code) in the tax year in which such Option or Stock Appreciation Right is expected to be deductible to the Company qualify for the Section 162(m) Exemption, and all such Awards shall therefore be considered Qualified Performance-Based Awards and this Plan shall be interpreted and operated consistent with that intention (including, without limitation, to require that all such Awards be granted by a committee composed solely of two or more members who satisfy the requirements for being “outside directors” for purposes of the Section 162(m) Exemption (“*Outside Directors*”). When granting any Award other than an Option or Stock Appreciation Right, the Committee may designate such Award as a Qualified Performance-Based Award, based upon a determination that (i) the recipient is or may be a “covered employee” (within the meaning of Section 162(m)(3) of the Code) with respect to such Award, and (ii) the Committee wishes such Award to qualify for the Section 162(m) Exemption, and the terms of any such Award (and of the grant thereof) shall be consistent with such designation (including, without limitation, that all such Awards be granted by a committee composed solely of Outside Directors).

(b) Each Qualified Performance-Based Award (other than an Option or Stock Appreciation Right) shall be earned, vested and payable (as applicable) only upon the achievement of one or more Performance Goals (as certified in writing by the Committee) except if compensation is attributable solely to the increase in the value of the Common Stock, (but in no event shall such Award be payable later than two and a half months after the end of the Company’s fiscal year in which the Qualified Performance-Based Award becomes earned and vested (as applicable), together with the satisfaction of any other conditions, such as continued employment, as the Committee may determine to be appropriate, and no Qualified Performance-Based Award may be amended, nor may the Committee exercise any discretionary authority it may otherwise have under this Plan with respect to a Qualified Performance-Based Award under this Plan, in any manner that would cause the Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption; *provided, however*, that (i) the Committee may provide, either in connection with the grant of the applicable Award or by amendment thereafter, that achievement of such Performance Goals will be waived upon the death or Disability of the Participant or under any other circumstance with respect to which the existence of such possible waiver will not cause the Award to fail to qualify for the Section 162(m) Exemption as of the Grant Date, and (ii) the provisions of Section 10 shall apply notwithstanding this Section 11(b).

(c) The full Board shall not be permitted to exercise authority granted to the Committee to the extent that the grant or exercise of such authority would cause an Award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption.

(d) The provisions of this Plan are intended to ensure that no transaction under the Plan is subject to (and not exempt from) the short-swing recovery rules of Section 16(b) of the Exchange Act (“*Section 16(b)*”). Accordingly, the composition of the Committee shall be subject to such limitations as the Board deems appropriate to permit transactions pursuant to this Plan to be exempt (pursuant to Rule 16b-3 promulgated under the Exchange Act) from Section 16(b), and no delegation of authority by the Committee shall be permitted if such delegation would cause any such transaction to be subject to (and not exempt from) Section 16(b).

Section 12. Term, Amendment and Termination

(a) *Effectiveness.* The Plan was effective as of August 20, 2008 (the “*Effective Date*”).

(b) *Termination.* The Plan will terminate on August 20, 2018 and may be terminated on any earlier date pursuant to Section 12(c). Awards outstanding as of such termination date shall not be affected or impaired by the termination of the Plan.

(c) *Amendment of Plan.* The Board may amend, alter, or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would materially impair the rights of the Participant with respect to a previously granted Award without such Participant’s consent, except such an amendment made to comply with applicable law, including without limitation Section 409A of the Code, stock exchange rules or accounting rules. In addition, no such amendment shall be made without the approval of the Company’s stockholders to the extent such approval is required by applicable law or the listing standards of the Applicable Exchange.

(d) *Amendment of Awards.* Subject to Section 5(d), the Committee may unilaterally amend the terms of any Award theretofore granted, but no such amendment shall cause a Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption or without the Participant’s consent materially impair the rights of any Participant with respect to an Award, except such an amendment made to cause the Plan or Award to comply with applicable law, stock exchange rules or accounting rules.

Section 13. Unfunded Status of Plan

It is presently intended that the Plan constitute an “unfunded” plan for incentive and deferred compensation. Solely to the extent permitted under Section 409A, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; *provided, however*, that the existence of such trusts or other arrangements is consistent with the “unfunded” status of the Plan. Notwithstanding any other provision of this Plan to the contrary, with respect to any Award that constitutes a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code, no trust shall be funded with respect to any such Award if such funding would result in taxable income to the Participant by reason of Section 409A(b) of the Code and in no event shall any such trust assets at any time be located or transferred outside of the United States, within the meaning of Section 409A(b) of the Code.

Section 14. General Provisions

(a) *Conditions for Issuance.* The Committee may require each person purchasing or receiving Shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the Shares without a view to the distribution thereof. The certificates for such Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. Notwithstanding any other provision of the Plan or agreements made pursuant thereto, the Company shall not be required to issue or deliver any certificate or certificates for Shares under the Plan prior to fulfillment of all of the following conditions: (i) listing or approval for listing upon notice of issuance, of such Shares on the Applicable Exchange; (ii) any registration or other qualification of such Shares of the Company under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification which the Committee shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable; and (iii) obtaining any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

(b) *Additional Compensation Arrangements.* Nothing contained in the Plan shall prevent the Company or any Subsidiary or Affiliate from adopting other or additional compensation arrangements for its employees.

(c) *No Contract of Employment.* The Plan shall not constitute a contract of employment, and adoption of the Plan shall not confer upon any employee any right to continued employment, nor shall it interfere in any way with the right of the Company or any Subsidiary or Affiliate to terminate the employment of any employee at any time.

(d) *Required Taxes.* No later than the date as of which an amount first becomes includible in the gross income of a Participant for federal, state, local or foreign income or employment or other tax purposes with respect to any Award under the Plan, such Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. If determined by the Company, withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to such Participant. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Common Stock.

(e) *Limitation on Dividend Reinvestment and Dividend Equivalents.* Reinvestment of dividends in additional Restricted Stock at the time of any dividend payment, and the payment of Shares with respect to dividends to Participants holding Awards of Restricted Stock Units, shall only be permissible if sufficient Shares are available under Section 3 for such reinvestment or payment (taking into account then outstanding Awards). In the event that sufficient Shares are not available for such reinvestment or payment, such reinvestment or payment shall be made in the form of a grant of Restricted Stock Units equal in number to the Shares that would have been obtained by such payment or reinvestment, the terms of which Restricted Stock Units shall provide for settlement in cash and for dividend equivalent reinvestment in further Restricted Stock Units on the terms contemplated by this Section 14(e).

(f) *Designation of Death Beneficiary.* The Committee shall establish such procedures as it deems appropriate for a Participant to designate a beneficiary to whom any amounts payable in the event of such Participant’s death are to be paid or by whom any rights of such eligible Individual, after such Participant’s death, may be exercised.

(g) *Subsidiary Employees.* In the case of a grant of an Award to any employee of a Subsidiary of the Company, the Company may, if the Committee so directs, issue or transfer the Shares, if any, covered by the Award to the Subsidiary, for such lawful consideration as the Committee may specify, upon the condition or understanding that the Subsidiary will transfer the

Shares to the employee in accordance with the terms of the Award specified by the Committee pursuant to the provisions of the Plan. All Shares underlying Awards that are forfeited or canceled should revert to the Company.

(h) *Governing Law and Interpretation.* The Plan and (unless otherwise provided in the Award Agreement) all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Plan are not part of the provisions hereof and shall have no force or effect.

(i) *Non-Transferability.* Except as otherwise provided in Section 5(j) or by the Committee, Awards under the Plan are not transferable except by will or by laws of descent and distribution.

(j) *Foreign Employees and Foreign Law Considerations.* The Committee may grant Awards to Eligible Individuals who are foreign nationals, who are located outside the United States or who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause the Company to be subject to) legal or regulatory provisions of countries or jurisdictions outside the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes, the Committee may make such modifications, amendments, procedures, or subplans as may be necessary or advisable to comply with such legal or regulatory provisions.

(k) *Section 409A of the Code.* It is the intention of the Company that no Award shall be “deferred compensation” subject to Section 409A of the Code, unless and to the extent that the Committee specifically determines otherwise as provided in this Section 14(k), and the Plan and the terms and conditions of all Awards shall be interpreted accordingly. Any payment made pursuant to any Award shall be considered a separate payment and not one of a series of payments for purposes of Section 409A of the Code. Notwithstanding any other provision of the Plan or an Award Agreement to the contrary, with respect to any Award that constitutes a “nonqualified deferred compensation plan” subject to Section 409A of the Code and if the Participant is a “specified employee” within the meaning of Section 409A of the Code, any payments (whether in cash, Shares or other property) to be made with respect to the Award on account of such Participant’s Termination of Employment shall be delayed if necessary until the earlier of (A) the first day of the seventh month following the Participant’s Termination of Employment and (B) the Participant’s death. Any such delayed payments shall be made without interest. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on a Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code.

(l) *Employee Matters Agreement.* Notwithstanding anything in this Plan to the contrary, to the extent that the terms of this Plan are inconsistent with the terms of an Adjusted Award, the terms of the Adjusted Award shall be governed by the Employee Matters Agreement, the applicable IAC Long-Term Incentive Plan and the award agreement entered into thereunder.

(m) *Suspension or Termination of Awards.* If at any time (including after a notice of exercise has been delivered) the Committee (or the Board), reasonably believes that a Participant has committed an act of Cause (which includes a failure to act), the Committee (or Board) may suspend the Participant’s right to exercise any Award (or vesting or settlement of any Award) pending a determination of whether there was in fact an act of Cause. If the Committee (or the Board) determines a Participant has committed an act of Cause, neither the Participant nor his or her estate shall be entitled to exercise any outstanding Award whatsoever and all of Participant’s outstanding Awards shall then terminate without consideration. Any determination by the Committee (or the Board) with respect to the foregoing shall be final, conclusive and binding on all interested parties.

(n) *Successor Provision.* Any reference to a statute, rule or regulation, or to a section of a statute, rule or regulation, is a reference to that statute, rule, regulation, or section as amended from time to time, both before and after the Effective Date and including any successor provisions.

(o) *Clawback Policy.* The Company may (i) cause the cancellation of any Award, (ii) require reimbursement of any Award by a Participant and (iii) effect any other right of recoupment of equity or other compensation provided under this Plan or otherwise in accordance with Company policies as may be adopted and/or modified from time to time by the Company and/or applicable law (each, a “Clawback Policy”). In addition, a Participant may be required to repay to the Company certain previously paid compensation, whether provided under this Plan or an Award Agreement or otherwise, in accordance with the Clawback Policy. By accepting an Award, a Participant is also agreeing to be bound by the Company’s Clawback Policy which may be amended from time to time by the Company in its discretion (including without limitation to comply with applicable laws or stock exchange requirements) and is further agreeing that all of the Participant’s Awards (and/or Adjusted Awards) may be unilaterally amended by the Company to the extent needed to comply with the Clawback Policy.

CERTIFICATION

I, Douglas R. Lebda, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2014 of Tree.com, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2014

/s/ Douglas R. Lebda

Douglas R. Lebda

Chairman and Chief Executive Officer
(principal executive officer)

CERTIFICATION

I, Alexander Mandel, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2014 of Tree.com, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2014

/s/ Alexander Mandel

Alexander Mandel

Chief Financial Officer

(principal financial officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Douglas R. Lebda, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014 of Tree.com, Inc. (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Tree.com, Inc.

Date: August 7, 2014

/s/ Douglas R. Lebda

Douglas R. Lebda

*Chairman and Chief Executive Officer
(principal executive officer)*

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Alexander Mandel, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014 of Tree.com, Inc. (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Tree.com, Inc.

Date: August 7, 2014

/s/ Alexander Mandel

Alexander Mandel

Chief Financial Officer

(principal financial officer)